104

# U.S. STRATEGIC INTERESTS IN PANAMA

Y 4. IN 8/16:P 19/3

U.S. Strategic Interests in Panama,...

RING

RE THE

SUBCOMMITTEE ON
THE WESTERN HEMISPHERE
OF THE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

MARCH 9, 1995

Printed for the use of the Committee on International Relations

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# U.S. STRATEGIC INTERESTS IN PANAMA

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THURSDAY, MARCH 9, 1995

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
SUBCOMMITTEE ON THE WESTERN HEMISPHERE,
*Washington, DC,*

The subcommittee met, pursuant to call, at 2:09 p.m., in room 2200, Rayburn House Office Building, Hon. Dan Burton (chairman of the subcommittee) presiding.

Mr. BURTON. If I could have everybody's attention. First of all, I want to apologize to everyone for my tardiness, especially to the sponsor of the bill. I know he is always in a big hurry, and Representative Taylor. I presume the rest of our subcommittee, or some of them, will be here in a few moments.

I have called today's hearing to examine U.S. security interests in Panama.

While Panama has received little attention in the American press and the U.S. Congress, since Operation Just Cause, and the removal of former General Manuel Noriega, American security interests in Panama remain strong.

The Panama Canal Treaty, signed by President Carter and General Omar Torrijos on September 7, 1977, obligates the United States to transfer all American military bases to the Republic of Panama by December 31, 1999. By this same date, the treaty also requires us to remove all of our military forces from Panamanian soil and transfer complete operations of the Panama Canal to the Republic of Panama.

As December 31, 1999 approaches, there has been a renewed interest among many Members of Congress, the American public, and the people of Panama themselves, in what America's departure from Panama will really mean for America's strategic interests in the region.

I personally have been contacted by active-duty U.S. service personnel, concerned American citizens, and surprisingly, Panamanian citizens, who would also like to see the United States retain a military presence in Panama. Recent opinion polls in Panama even suggest that as much as 83 percent of the Panamanians would like the United States to stay in Panama.

I have also been informed by the Clinton administration that it is now reviewing our policy toward Panama to determine if keeping a military presence in Panama is in our national interest. Among the many issues that the administration must consider during this policy review are whether such an initiative is possible diplomati-

cally and from a U.S. budget perspective, and how such an initiative would impact our overall national security strategy.

It is important to emphasize that the people who want to keep the U.S. military in Panama have different reasons for wanting this presence. Some people are concerned about the continued safety and operation of the canal. With only a civilian police force now in Panama, these people want to ensure that U.S. forces are in a military position to assist the Republic of Panama against those who might wish to disrupt its operation.

Other people believe that America needs our forward presence in Latin America to effectively combat drug trafficking and to preserve peace throughout the region.

For these people, leaving Panama signals America's disengagement from the region. These people cannot understand how the United States can maintain so many military bases in Europe and Asia, without retaining anything in our own back yard.

Finally, there are some people who are concerned that the loss of certain U.S. training facilities in Panama will have a negative impact on the training of U.S. active duty forces as well as the National Guard and Reserves, since some of the facilities down there can only be replaced in a like area, and it would cost a lot of money.

I am hopeful that today's hearing will provide all subcommittee members a good opportunity to assess the value of America's military assets in Panama in terms of defending the Panama Canal, carrying out American counter-drug activities, maintaining regional security, and providing training opportunities for U.S. Armed Forces.

Before I yield to my colleague, Mr. Smith, I would like to introduce today's witnesses. Testifying in our first panel will be the Honorable Phil Crane, Representative from the 8th District of the State of Illinois, and the Honorable Gene Taylor, Representative from the 5th District of the State of Mississippi. Representative Taylor just got back from the Panama Canal, so he can give us an update on that.

Testifying in our second panel will be Ms. Anne Patterson, Deputy Assistant Secretary of State for Central America; and Mr. Frederick C. Smith, the Principal Deputy Assistant Secretary of Defense for International Security Affairs. I also understand that General John R. Walsh, the Assistant Deputy Director for Political and Military Affairs for the Joint Chiefs of Staff, will assist Mr. Smith in answering questions from our subcommittee.

Testifying in our third panel will be Colonel John A. Cope, a senior fellow with the Institute for National Strategic Studies at the National Defense University; and Dr. Richard Millett, director for national programs with the North-South Center.

I want to welcome all of you here today. I appreciate my colleagues' patience.

Do you have an opening statement?

Mr. SMITH of New Jersey. Mr. Chairman, I want to thank you for holding this very important hearing. I also want to take this opportunity to welcome our distinguished witnesses, particularly our colleagues, Phil Crane, who has been an important leader in the

Congress, and an inspiration to us, and a special welcome to Mr. Taylor.

The process by which the United States surrendered much of its interests in the Panama Canal is a case study of how not to reach an international agreement. This is not to say that our interests and those of the people of Panama could not have been reconciled. It is important not only to be a good neighbor, but also to be seen as a good neighbor.

It is always important for us to recognize that the sovereignty and territorial integrity of Panama matters just as much to Panamanians as the sovereignty and integrity of the United States matter to citizens of the United States.

It is also important, however, to ensure that recognition of these interests does not come at the expense of the just interests of the people of the United States, and that such recognition does not strengthen dictatorial governments at the expense of their own people.

In the case of the Panama Canal agreements, we forgot all those lessons. Because we acted in haste and without adherence to principle, we strengthen the Torrijos regime which ultimately gave way to the Noriega regime; thus setting back the progress of freedom and democracy in Panama by many years.

We may also have arrived at a formula for management and ownership of the Panama Canal and of other U.S. facilities in Panama that will not serve either our interests or those of the Panamanian people.

Again, I think this hearing is very timely, and I thank the distinguished chair for convening it.

Mr. BURTON. Let me just explain to our guests in the first panel, we have a vote to make. Would you prefer us to vote and come back, or would you like to start your statements now?

Why don't we recess and vote and then come right back. We will be back in about 10 minutes. We beg your indulgence.

[Recess.]

Mr. BURTON. I have been informed by the House that there is an amendment pending on the floor which will probably require a vote in about 10 or 15 minutes, so we will go ahead and proceed with Representative Crane. When Representative Taylor returns, we will hear from him.

Representative Crane.

## STATEMENT OF THE HONORABLE PHILIP M. CRANE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. CRANE. Thank you, Mr. Chairman, and members of the subcommittee, ladies and gentlemen. I deeply appreciate the opportunity to testify before you today. And I have prepared a statement which, with your permission, I would like to submit after summarizing my remarks for openers.

Mr. BURTON. Without objection.

Mr. CRANE. Mr. Chairman, you and your colleagues are to be commended for holding this hearing on the strategic importance of Panama and the canal that bears its name.

During its 80-year history, over 5.6 billion tons of cargo have transited its locks with scarcely an interruption. Last year, 13.4

percent of all U.S. trade, 10 percent of all Latin American trade, and 3.7 percent of the world's trade passed through this historic interoceanic waterway. And the best is yet to come if we play our cards right.

Just last December, an agreement was reached at the Summit of the Americas Conference to create, by the year 2005, an interim American free trade area, serving over 850 million people whose combined income is expected to exceed $13 trillion. According to the Institute for International Economics, the success of that effort could spur regional economic growth by as much as 1.5 percent a year, and boost U.S. exports to Latin America by $36 billion.

But there is a catch. For hemispheric trade to realize its potential, the regular operation and proper defense of the Panama Canal after this millennium must be assured. Since the United States is best qualified by virtue of its resources and experience, to provide such assurances, it should negotiate a base and canal rights agreement with Panama that would take effect when the 1977 Panama Canal Treaty expires on December 31, 1999.

As the author of H. Con. Res. 4, which calls upon the President to initiate those negotiations, let me add that time is of the essence in reaching such an agreement. As I speak, the turnover of our military bases near the canal to Panama is well underway, nearing in fact the point of no return. Such being the case, I would hope that a base rights, canal defense understanding with Panama could be worked out as soon as possible.

It need not cover all 14 bases once maintained by our Armed Forces, nor should any lease deal governing the waterway itself give rise to sovereignty concerns. Instead, my preference is for a business understanding whereby the host country, Panama, is the owner and acts as landlord, while the client state, the United States, becomes the tenant and operates the facilities under lease.

Also, since Panama does not have an army, the deal could include other things such as a U.S. commitment to defend all of Panama from attack, not just the canal.

Both the United States and Panama have much to gain from such an understanding. Not only would Panama collect rent and dividend payments as a result, but the jobs of at least 6,000 Panamanian nationals would be preserved, as would the economic activity generated by our military installations. And, depending on the terms of the agreement, Panama might be spared the cost of maintaining the facilities, providing for their security, and defending the rest of the country.

As for the United States, a deal of this nature offers two important advantages. One, the maintenance of bases that will enable us to fulfill our hemispheric security, antidrug and canal-defense functions more effectively; and, two, the best assurance that the benefits of freer trade can be realized, not just by ourselves but by our hemispheric neighbors as well.

Perhaps for these very reasons Americans and Panamanians appear to be of like mind with respect to the maintenance of U.S. military presence in Panama after the turn of the century. Public opinion polls taken there have repeatedly shown at least two-thirds of those questioned in favor of the idea and a survey last year by

the Marketing Research Institute indicated almost as much support amongst Americans; 65.5 percent to be exact.

So what are we waiting for? Some may tell you that we are waiting for the Panamanians to make the first move. But since they may not, or they may not want to appear subservient, I think we should take the first step, and call for the negotiation of a base and canal rights agreement.

By adopting H. Con. Res. 4, Congress could take that step, and I hope it will do so without delay. There is much to be gained, and little to be lost, by promoting a good deal for the United States, for Panama and all of our freedom loving neighbors to the South.

And let me close by thanking you once again for the opportunity to present my views, and I would be happy to elaborate in response to any questions that you may have.

[The prepared statement of Mr. Crane appears in the appendix.]

Mr. BURTON. Thank you, Representative Crane. I know you have been working on this for years and years. Finally we are going to have a hearing, and hopefully a markup on this subject.

Representative Torricelli, the ranking Democrat is here with us. Representative Torricelli.

Mr. TORRICELLI. Thank you, Mr. Chairman, very much.

I would like to get a better understanding of exactly what it is you would propose occur.

A base agreement for a limited period of time for the general usage of all U.S. forces in the region, or specifically designed to canal defense?

Mr. CRANE. It is a combination of both. It would be a lease agreement, a business deal where, for example, if you own something and you are not in a position to superintend the utilization of it, I come to you and I say, "Mr. Torricelli, may I lease this from you and utilize it for a purpose that will earn money for you and for me."

Mr. TORRICELLI. So it is not something that you envision as being of mutual benefit; therefore, without compensation. But a lease agreement that probably involved rent.

Mr. CRANE. It would involve compensation to Panama, but the compensation would go beyond just whatever the United States would agree to pay the Government of Panama for lease rights. That compensation includes indirect payments. It includes job maintenance on a massive scale, and those are better paying jobs than other Panamanian jobs.

Mr. TORRICELLI. And the objectives here are both canal defense, but also, I would assume, our narcotics effort.

Mr. CRANE. Exactly.

Mr. TORRICELLI. And general Caribbean operation?

Mr. CRANE. And security, right.

Mr. TORRICELLI. The most startling about your testimony was to hear the poll results. This is a poll taken of Panamanian residents?

Mr. CRANE. Panamanian residents. And when I was down there last year, there was more than one poll, but it ranged from 70 to 90 percent support for Americans to stay.

Mr. TORRICELLI. And the question is whether they would support a leased U.S. base presence in the future?

Mr. CRANE. Well, not necessarily a lease even. Renegotiated contract for an extension of the American presence.

Mr. TORRICELLI. For continued presence?

Mr. CRANE. Right. And it was based, I am sure, in no small measure on economic considerations. But I do not think that was the extent of it. I think there were other considerations.

Mr. TORRICELLI. It is very interesting, and I, Mr. Chairman, just want to say that in both holding this hearing and testimony provide a real service in trying to move the administration forward to deal with the reality of the end of the American presence in Panama.

The United States is a country that keeps its treaty obligations. No one is suggesting we should do anything different. But as times change, different governments see different self-interests. And I would agree with Representative Crane that in the self-interest of Panama, there may be a need now to look again at this issue and see what is in the interests of their people, as well as our own. But I think by this testimony and by this hearing we move that process forward.

Mr. CRANE. Well, if you will yield one moment on that point, I think the importance of this relationship is the sovereignty question is totally divorced from it. It has nothing to do with the sovereignty issue that created some of the bad feeling down there prior to the treaty. This is strictly a business deal, and it is a win-win business deal between——

Mr. TORRICELLI. Well, indeed if sovereignty enters into the question, the sovereignty of Panama is threatened more by narco-traffickers who are going to have free reign in the region with no U.S. military presence than by leasing property on a compensatory and temporary basis to the United States by the government.

Mr. CRANE. Yes, indeed.

Mr. TORRICELLI. Thank you.

Mr. BURTON. Before we have any other questions, I think we probably ought to hear from Representative Taylor.

Prior to that, I would just like to make one quick comment. I talked to one of the leading military people and was told that aside from the drug problem and the security of the canal, there are several countries in Latin America whose economic survival depend, in large part, by use of the canal. I think this includes Peru and Bolivia. If for some reason the canal was closed, it would have a devastating impact on their economy. So the security of the canal is very important.

Representative Taylor.

## STATEMENT OF THE HONORABLE GENE TAYLOR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSISSIPPI

Mr. TAYLOR. Thank you, Mr. Chairman. I appreciate you and the panel here having this hearing today.

Mr. Chairman, I would preface my remarks by saying that for about the past 3 years I have been visiting Panama, and have seen an ongoing shy courtship between our country and the Panamanians. Both of us being somewhat willing adults to continue the re-

lationship, and yet neither one being the one to make the offer of saying why do we not renegotiate.

I think the biggest movement along those lines publicly took place while I was in Panama last month, when our Commander and Chief of SOUTHCOM, General McRafferty, was meeting with the Panamanian President Valores, and they both openly brought up the subject of renegotiating the treaty for the purpose of letting the Americans keep some bases in Panama.

I would like to strongly encourage this committee, the full committee, to explore that possibility. I happen to think it is a very worthwhile thing for our country to do. And I also think it is worthwhile for the Panamanians.

If you have the opportunity to read a great book "The Path Between the Seas," it talks very clearly of how our nations' destinies have been linked; that our ascension as a nation as a great power is directly tied to about the same time period when we gave the Panamanians their country. We took it from the Colombians, but we did indeed help the Panamanians begin their own country, and in turn, were given the right to build the treaty, and the right to maintain that treaty up through the year 2000.

That has given us a tremendous input into Latin America; tremendous forward presence from a military standpoint. That was very important during the Second World War, and remains important today when you consider that some 14,000 ships transit the Panama Canal this year. Everyone of them, when they do so, will pass right by Howard Air Force Base.

I think it is very important for our country to remain engaged in the world, but particularly important for our country to remain engaged in Latin America. They are our neighbors. They are our most immediate neighbors, along with the Canadians. A lot of people talk about the need to trade with the East. I think it makes more sense to deal with those who are closest to us.

I would also like to talk about our nations' mutual friendship. I have traveled fairly extensively as a member of the Armed Services Committee. Never in my travels have I experienced the kind of friendship toward Americans that I have seen in Panama. I literally got tired of waving out of the helicopter on a recent trip; not this year, but in a previous year, where the doors were open and we were traveling up toward the Costa Rican border.

Our National Guard and reservists have been very instrumental in building roads in remote parts of that country. Incidently, training they could not do since these were guardsmen and reservists from northern states where it would be impractical to do road type work during the dead of winter, so they did it instead down in places like Davide. They built a road for the Panamanians. Great, great national-building, and also great friend-building.

We are the world's only superpower, and we have as a nation developed a policy of trying to avoid having conflicts on our shores. That has served this nation fairly well through the Second World War, through other wars. If we want to in the future see to it that wars are not fought on our land, I think it is important that we retain our bases around the world. And I think the Panamanians would like us to stay.

As Mr. Crane and others have remarked, I think the most recent poll was something like 80 percent of the Panamanians, when asked if we should stay, if we should be allowed to keep some bases, have said we should. The Howard Air Force Base is very important to us. I think the Riverine School that is held there for the Navy, where we work with our Latin American neighbors to help train each other on Riverine warfare; I think the jungle school is invaluable. And I think being right there on the canal is invaluable to our country.

I would like to, as you are drafting your legislation, make one suggestion that I received from a high-ranking Panamanian official that I would presume would just as soon go unnamed, and that is because of the sensitivities and the fact that any treaty would have to be renegotiated in their Congress. Because of the sensitivities that we not mention the defense of the canal. That is already in the existing treaty, and that would not be undone by this treaty. And I think it is important that we try to honor their wishes.

I think the Panamanians would be more than willing to provide the bases. I think they would be more than willing to provide them at little or no cost to the Americans because we are, as I am sure Mr. Crane mentioned, the second to the largest employer in Panama, second only to the nation of Panama itself, because of our historical friendship, but we also as good neighbors should be very much aware of the sensitivities. And one of those sensitivities is just that mentioned.

I would remind you that condition one of the Neutrality Treaty is that the United States already has the explicit right to defend the canal, including the right to use unilateral military force in Panama if the canal itself or ships passing through the canal are threatened, and if the actions do not constitute an intervention of Panama's internal affairs. So I do not think there is any need for any redundancy in whatever legislation you put forward, and I do think it would help get this measure through the Panamanian elected bodies.

Mr. BURTON. Thank you, Representative Taylor.

Mr. CRANE. I would like to direct to my colleague a question.

Mr. BURTON. Sure.

Mr. CRANE. Are you quoting from the DiConcini reservation?

Mr. TAYLOR. I do not know Mr. DiConcini.

Mr. CRANE. Mr. DiConcini added the reservation that provided for unilateral military action on the part of the United States exclusively to protect the security of the canal, and that passed 75–23 in the Senate.

Mr. TAYLOR. That is existing law, and I am——

Mr. CRANE. That is not existing law. That is my point. There was a Torrijos reservation that followed that, that the Carter administration acknowledged in Jimmy Carter's book in 1981, "Keeping the Faith." He never communicated to the Members of the U.S. Senate when they voted to ratify the treaty. And I mention it because Torrijos' reservation said no military action is permissible except when it is explicitly requested by the Panamanian Government. It totally negated DiConcini's reservation.

Mr. TAYLOR. Well, Mr. Crane, I do not think Operation Just Cause was at the request of the Panamanian Government.

Mr. CRANE. Well, that is not the point.

Mr. TAYLOR. And it certainly did not stand in your way, and the point is——

Mr. CRANE. To be sure. I mean, you can question the propriety of that kind of an action, and Panamanians can certainly question the propriety of that kind of an action.

Mr. TAYLOR. Again, I will point to condition number one of the Neutrality Treaty. It states that if the canal is closed or its operations interfered with, the United States of America and the Republic of Panama shall each independently have the right to such steps as each deems necessary in accordance with this constitutional process, including the use of military force in the Republic of Panama to reopen the canal or restore the operations of the canal.

Mr. CRANE. What is the source?

Mr. TAYLOR. It is condition one. It is taken straight from our Congressional Research Service.

Mr. CRANE. What you are taking that from is the treaty that our Senators voted on without realizing, and it is a violation of international law, what took place. In fact, violates the Vienna Convention on International Treaties of 1969, and that is explicit on the point that reservations like that have to be voted on by both parties. And the reservations were not voted on by both parties. The Panamanians had their own, and we had one, and that was not brought up at the time of the debate on ratification of the Panama Canal Treaty.

Mr. BURTON. I have read your book, Representative Crane, dealing with the canal, and heard these arguments. There were two separate agreements with some gray area between the two. But I do not think this legislation is going to address that.

What we are trying to do is take the ball from where we find it and go forward. I think that Representative Taylor is recommending that we will take a look at this situation to make sure that the language in the resolution is such that it is fully understood that this is a mutually acceptable agreement. However, the United States, working with the Panamanian Government, would like to have the right to make sure that we can defend and protect the canal.

Mr. CRANE. Well, Mr. Chairman, if you would yield just a point.

I am not talking about renewing or reopening that whole debate because that is an irrelevancy if we could reach this kind of a business agreement where the Panamanian Government says, yes, fine, we will extend to you the authority to come in there and guarantee the security of that canal at any time it is at risk. Strictly a business deal, and for a limited timeframe.

Mr. TAYLOR. Mr. Burton.

Mr. BURTON. Yes, Mr. Taylor.

Mr. TAYLOR. If I could give a little more impetus to the need to move quickly.

In February of this year Colonel O'Connor, who sits behind me, was kind enough to take me to some of the buildings that have been reverted. I think by everyone's admission, including the Panamanians, that that has not been handled as well as it could have been.

The one building we happened to visit was the old School of the Americas. It had been stripped of everything but the doors. That is not a source of pride for the Panamanians. They wish it was otherwise.

But the bottom line is that more buildings and more grounds, in fact a lot of buildings and a lot of territory will be reverted this year.

If we are going to continue to have our presence there, I think it is important that we do not have a lapse; that we leave for awhile and then come back, because then we would have a MilCon, military construction charge against us that I just think would be phenomenal.

I think it is also very important so that people like Colonel O'Connor, who is responsible for American—the maintenance of American buildings down there—can have a continued budget to maintain those buildings that he has and those that we wish to keep. That is not the case now.

As we fully imply, as Mr. Torricelli said, we fully imply to live by the treaty as it is written now. I think it is very important that this Congress before we go home, whatever time that is around Thanksgiving, that we address this issue of whether or not we intend to stay, present it to the Panamanians to see whether or not they intend to let us stay, and go forward from there in a time when the Committee on National Security can budget these matters, and that the people down there who are actually affected as far as maintaining these facilities can budget these matters, and see to it that they are maintained.

Mr. BURTON. I do not know that I can speak for Mr. Torricelli or the rest of the committee, but I think it is our intent to look at this legislation as thoroughly and as quickly as possible; and to have a markup and to get it to the full committee for review. We are going to try to move expeditiously to see if we can get an agreement between the Panamanians and the U.S. Government worked out.

Mr. CRANE. Would you yield for just one final comment?

When I was down there, it was during the Presidential elections, and there are sensitivities about these kinds of public discussions for political reasons. And their point was we have never tried to initiate a sit down discussion on this subject, and it is not to—well, it is awkward to an extreme to some of them to be the ones appearing to try and initiate the discussion. It should be initiated by us. Panamanians can reject it. That is their decision. But the initiation of the discussions has not been done. It was not done under Bush and it has not been done thus far under Mr. Clinton.

Mr. BURTON. We will see if we can expedite that procedure.

Representative Torricelli, do you have a comment?

Mr. TORRICELLI. No, not at this point.

Mr. BURTON. Representative Wynn.

Mr. WYNN. No.

Mr. BURTON. Representative Frazer.

Mr. FRAZER. No.

Mr. BURTON. If not, thank you very much, gentlemen, for your testimony.

Mr. CRANE. Thank you.

Mr. BURTON. Do we have a vote on at the present time?

We, unfortunately, have to catch a another vote, so we will recess the meeting, and we will catch our second panel as soon as we return.

[Recess.]

Mr. BURTON. I would like to welcome the next panel: Ms. Anne Patterson, who is the Deputy Assistant Secretary of State for Central America; and Mr. Frederick C. Smith, Principal Deputy Assistant Secretary of Defense, International Security Affairs for the Department of Defense. I would also like to welcome my good friend and lovely compatriot, Ms. Ros-Lehtinen, for being with us, both my colleagues.

Ms. Patterson.

## STATEMENT OF ANNE PATTERSON, DEPUTY ASSISTANT SECRETARY FOR CENTRAL AMERICA, DEPARTMENT OF STATE

Ms. PATTERSON. Thank you very much, Mr. Chairman. I am pleased to appear before you and members of the subcommittee today to convey the administration's thinking on Panama.

Because of its location, Panama has long merited special consideration from the United States. I have provided more detail in a written statement, which has been made available to the committee.

Mr. Chairman, you have just indicated special interest in the possibility of a U.S. military presence after December 31, 1999 when, according to the Panama Canal Treaty, the canal will be under Panamanian ownership and control, and there will no longer be U.S. military bases in that country.

Let me say at the beginning, Mr. Chairman, that the question of remaining in Panama is now under review in the U.S. Government, so these hearings are particularly timely.

As you know, this is a complex issue, involving an evaluation of our security interest and an analysis of the cost of various options. We look forward to working with the committee as this process unfolds.

As 1999 approaches, there are three specific and related areas which are covered by treaty provisions and which are crucial to our relationship with Panama. The first is the transfer of the Panama Canal. The second is the reversion of the military bases. The third issue is canal security in the post-2000 period.

The treaty provides that Panama shall assume responsibility for the management, operation and maintenance of the canal as of December 31, 1999. The efficient and secure operation of the canal is our primary strategic objective in Panama. Although the development of containerized shipping has reduced the canal's importance for U.S. commerce, it remains important for global commerce and for use by our armed forces in wartime.

The Government of Panama will be able to run the canal after 1999. In fact, Panamanians are largely running it now. Almost 90 percent of the labor force is Panamanian, and they hold almost half the management jobs.

It is important to understand, however, that the treaty transfers only the canal's physical assets to Panama. It will not transfer the management structures. In the next several years a management

arrangement must be established which will provide for the retention of skilled high-level employees of all nationalities into the post-2000 period.

The U.S. Government will propose legislation to convert the Panama Canal Commission into a government corporation. For its part, the Panamanian Government has just passed a constitutional amendment to provide for a similar corporate structure. A conference of canal users is also planned for 1997, to demonstration preparations that the Panamanians have made to manage the canal.

The second issue of concern to us is the reversion of military bases. Between now and the end of 1999, the United States plans to return some 77,000 acres, with almost 4,300 buildings. The record of Panamanian usage of facilities turned back so far has been mixed. We will be working closely with the Panamanians to plan and coordinate property returns. This process of consultation should result in a smooth flow of returning facilities in good condition. The sooner we can give the Panamanians a definitive answer, the better they can plan their own use of the reverted properties.

The third issue is a consideration of a post-2000 military presence. Our policy is to comply fully with the canal treaties, including the complete withdrawal from Panama by December 31, 1999. But as I said, we are reviewing the possibility of a post-2000 presence.

We are working closely with the Defense Department to address the issues involved, including the undeniable utility of the bases to fight drug trafficking and for training U.S. forces. As we look at potential benefits, we must also consider the potential costs involved for basing rights.

We will also evaluate whether a U.S. presence would be supported by Panamanians over the long term. Our relationship with the new Panamanian Government of Ernesto Perez Balladares has been very positive. We will be in touch with the Government of Panama to discuss these issues at the appropriate time. We will welcome consultations with the Congress, and especially this subcommittee, as we continue this process.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Patterson appears in the appendix.]

Mr. BURTON. Thank you, Ms. Patterson. I hope you will be available for questions in a few minutes when we finish with this panel.

Mr. Smith, I understand you have a general with you. Would you like to identify the general?

Mr. SMITH. Yes, sir, I would. With me is Brigadier General Walsh from the Joint Staff, as well as other Pentagon experts who are here to help answer your questions.

Mr. BURTON. I want you to know that as a former private in the Army this really kind of gets to me, all this brass in front of me.

Mr. Smith.

## STATEMENT OF FREDERICK C. SMITH, PRINCIPAL DEPUTY ASSISTANT SECRETARY, INTERNATIONAL SECURITY AFFAIRS, DEPARTMENT OF DEFENSE

Mr. SMITH. Mr. Chairman and members of the subcommittee. It is a pleasure to testify before your committee this afternoon.

I would like to submit my entire text of my statement for the record, and make a brief summary of the key points.

The United States has important political, economic and security interests in Latin America. Our interests focus on helping to promote democracy, taking measures to increase economic growth and stability, combating the flow of drugs from the region to the United States, and, in particular, in Panama, defending the Panama Canal. These are enduring interests that I believe will not change after the year 1999.

The chief implementor of U.S. defense policy in Central and South America is the U.S. Southern Command. Its primary mission is to protect U.S. security interests in the region. It accomplishes this mission by maintaining command and control of U.S. forces operating in the theater, defending the Panama Canal, supporting counter-drug efforts, strengthening professional military-to-military relationships in the region, and promoting peace and stability to enhance democratic development and economic growth.

These military missions, like our interests in the region, will not change after 1999.

Current U.S. military strength stationed in Panama is approximately 8,800 personnel. The U.S. Atlantic Command, USACOM, maintains a regional presence contiguous to USSOUTHCOM's area of responsibility. USACOM has command of nearly all U.S. base forces to use in fulfilling tasks in the hemisphere. These forces, together with those under the command of USSOUTHCOM, are and will remain capable of responding to any threat in the region.

The Department of Defense is complying with the terms of the Panama Canal Neutrality Treaties by transferring defense facilities to the Government of Panama and withdrawing U.S. forces. The Panama Canal Treaty Implementation Plan, signed by the Secretary of Defense in 1992, allows for defense of the canal, continued support for counter-narcotics programs, use of training facilities for U.S. forces, emergency evacuation, if necessary, of U.S. citizens from the region, and humanitarian and disaster relief assistance. In short, the plan fulfills treaty obligations while continuing to carry out the U.S. Southern Command missions.

Our ability to carry out these missions will not cease under the termination of the treaty. In particular, under the protocol of the treaty concerning the permanent neutrality and operation of the Panama Canal, which carries no expiration date, the United States will retain the right and responsibility to act against threats to the canal.

Secretary Perry has stated that while the United States will fully implement the terms of the treaty, we are willing to discuss the possibility of maintaining a U.S. military force presence in Panama after 1999 if the Panamanian Government believes too that it is in its best interest.

The administration is conducting a thorough study of the requirements for a possible post-1999 presence in Panama. Participants in this study include State, Defense, the Joint Staff, USSOUTHCOM, OMB, the intelligence community, the National Security Council staff, and the Panama Canal Commission.

The study includes requirements for maintaining a capable presence in the region, continuing to provide security of the canal, com-

mand and controlling forces deployed to the region, supporting counter-narcotics operations, ensuring adequate training facilities for U.S. forces, and staging for contingencies, search and rescue, humanitarian assistance, civic action, disaster relief, and exercises. These requirements, of course, must be balanced with U.S. global interests, our overall military force and basing structure in the past 1999 era, and limited fiscal resources.

I want to emphasize that the review will include looking at three areas of major concern: defense of the canal, uninterrupted counter-drug support to U.S. and foreign law enforcement agencies, and maintaining the best possible training opportunities and facilities for the U.S. military personnel.

We look forward to consulting with Members of Congress as we work our way through this important task.

The situation in Panama in the coming years will present challenges and opportunities. The Department of Defense will comply with the terms of the Panama Canal Treaties, at the same time our regional interests will grow and our military forces will remain engaged.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Smith appears in the appendix.]

Mr. BURTON. Thank you, Mr. Smith.

Does the general have any comments, or are you just here to answer questions.

General WALSH. I am just here to answer questions.

Mr. BURTON. Thank you.

Let me start off by saying that one of my major concerns is not only the training facilities down there, but also the impact on the economies of a number of Latin American countries that depend on the canal. This is also true for a lot of American agricultural products that transit the canal. I have heard that as much as 40 percent of our agricultural commodities in one way or another are affected by traffic on the canal. Commerce in the United States and commerce in Latin America is of great importance to this subcommittee and to the country.

It seems to me that the State Department is committed to total compliance with the Panama Canal Treaty, and extricating ourselves from the canal zone by the year 2000; while the Defense Department believes there is merit in keeping a military presence there, to work with the Panamanian Government in protecting the canal, and for economic purposes.

After listening to your two testimonies, there seems to be a little bit of space between your two agencies. So I would just like to ask this question.

Does the administration and the Defense Department feel that there is a difference of opinion here? Or did I mishear?

Ms. PATTERSON. Not at all, Mr. Chairman. I think perhaps the confusion is regarding turning over the canal, and we are convinced that the Panamanians can run this. What is under study in the administration right now is the post-2000 military presence, and whether we should maintain that to carry out training activities and counter-narcotics activities.

Mr. SMITH. I agree with that, Mr. Chairman. I do not think there is any light between the Department of Defense and Department of State on this issue.

Mr. BURTON. Well, I guess that is good. It is good if you are both right.

Mr. SMITH. Trust us.

Mr. BURTON. Trust us.

I am looking at this map here, and see the Madden Lake Dam and the Gatun Dam. I was told by Congressman Crane that if the Gatun Dam was blown for some reason, it would depress the water levels in that lake, and make it virtually impossible to transit the canal. There are some narrow areas that I saw when I visited the canal back during the invasion that took place. It appeared to me, that, with very little difficulty, some charges of dynamite or plastic explosives could render it impassable.

We have said we could defend the canal if we did not have a military presence on site. It seems to me that if you do not have a military presence on site, that there could be some irreparable damage done before we could get there. Some kind of a cooperative military venture with Panama and the United States participating would be the best way to ensure that you would have a canal that would be open.

My question is how are you going to defend the canal? How can the Panamanians defend the canal from afar? How could we defend it from afar? For example, if we are somewhere else in the Caribbean and there is an attack on the canal or on the dam.

Mr. SMITH. Yes, sir. I will take the first crack at responding at your question and comment.

We see that there are different types of threats obviously to the canal. There could be an external kind of threat against which having a military presence would probably be the most useful. Then there is also the, I'll call it the internal threat, or subversion or sabotage, such as the threat that you mentioned about blowing the dam, which is unfortunately a real threat, and it could happen today, although we believe the probability of that is low.

We believe that the probability of the external type of threat, especially in the post-cold war era, is exceptionally low, even lower than the internal type of threat.

Mr. BURTON. I hope the people at the New York Trade Center agree with you on that.

Anyhow, go ahead.

Mr. SMITH. No, it is possible——

Mr. BURTON. Or the World Trade Center.

Mr. SMITH. I am not saying it is impossible to happen, but in terms of a threat assessment, it is a low chance.

Mr. BURTON. So you think it could be defended then from external threats externally?

Mr. SMITH. Yes, absolutely, from external threats. Now, I will let General Walsh speak more to it because we do have a number of forces in the region. They do not have to, and this is the external threat I am speaking to now. We would have other naval assets available that could defend against that type of a threat.

Mr. BURTON. My time has expired, but if you want to add real quickly, General.

General WALSH. Yes, sir. I would agree with the comments on the external threat. Of course, our presence there now does not necessarily do anything but deter some sort of internal threat. Even with all the policemen in New York, they were still able to bomb the Trade Center. But there is a certain amount of deterrence that you get from our presence there on the ground.

As you know, we are not guarding those dams with U.S. soldiers right now.

Mr. BURTON. OK. Mr. Torricelli.

Mr. TORRICELLI. Thank you, Mr. Chairman.

Since you agree that there is a deterrence effect in having U.S. forces there, therefore we would have to say that the net result of American withdrawal of forces, if it were to become complete, then without that deterrence effect there, in fact, will be less security against terrorist activities.

General WALSH. Yes, sir, I agree that you lose the deterrent effect.

Mr. TORRICELLI. And the entire facility is extraordinarily vulnerable to a terrorist action. It would appear to me that from a combination of the locks or the dams, terrorist attempts to incapacitate the canal could indeed be accomplished if unguarded.

General WALSH. Yes, sir. Of course, it would not be unguarded. But I think the resolve of a terrorist would blow up the dam whether you were there or not. I mean the deterrent effect would not necessarily, in the minds of the terrorists that I have read about around the world, would not necessarily cause you to deter that sort of threat. But we do not guard the canal right now.

Mr. TORRICELLI. The canal has survived the entire 20th century to two world wars, various waves of terrorist activities with no incident. Presumably that was not by chance. The U.S. military presence must have had some effect or it was extraordinary good fortune. It worked on the Japanese empire and on the Germans. It worked on terrorist activities throughout Central America all through the last decade, and various revolutions. They seem to have convinced Fidel Castro.

Does that not appear to be a rather remarkable record? I am trying to compliment the U.S. military, and you do not take it. [Laughter.]

General WALSH. I do not have a problem with what you have just said.

Mr. BURTON. Would you yield quickly?

Is it my understanding that there are military patrols that patrol the dams or the locks?

Ms. PATTERSON. Mr. Chairman, there is since Just Cause. Since 1989, the U.S. Government has spent about $30 million training indigenous Panamanian force, training and equipping an indigenous Panamanian force. The force is dedicated to canal protection, roughly in the range of 700 people. There are also specialized units such as SWAT teams and hostage rescue teams and the like.

Whether this could protect against a determined terrorist, I mean, of course, I doubt it. But it does give some level of protection of the canal, and they have been protecting the canal.

Mr. BURTON. If the gentleman would yield further.

Then there are some patrols and some security efforts made——

Ms. PATTERSON. Yes.

Mr. BURTON [continuing]. To protect the canal?

Ms. PATTERSON. Under the aegis of the Panamanian police and the Panama Canal Commission, both.

Mr. BURTON. OK, if the gentleman would yield for one.

Mr. TORRICELLI. But, Mr. Chairman, remember too that indeed the witnesses may be right that you cannot guard against a terrorist activity. But staying with the comparison of the World Trade Center, the terrorist also knows you commit the act, but you are also not going to get away because those forces are there to apprehend. That must be part of a deterrent operation.

Mr. BURTON. If the gentleman would yield further.

Would you agree that the U.S. military presence complements the Panamanian security forces that are protecting the various parts of the canal?

Ms. PATTERSON. I cannot answer the question. I do not know how much operational activity the U.S. military engages in in protecting the canal.

Mr. BURTON. OK, how about subliminally.

Ms. PATTERSON. I think, Mr. Chairman, where it no doubt helps is in the intelligence area, and we are making provision to replace that in the post-2000 period. That is certainly an issue that is under study in our review right now.

I mean, certainly the more people you have there, the more information you acquire about possible threats.

Mr. BURTON. Does the military believe that the supplemental force, if you will, of the U.S. military there, working with the Panamanian security forces, is a deterrent to any kind of terrorist activity?

General WALSH. I believe that it is.

Mr. BURTON. Thank you, that is all I wanted to hear.

The State Department is a little ambivalent about that. I like the military's answer a little bit better.

Anything else, Mr. Torricelli.

Mr. TORRICELLI. Ms. Patterson, I would like you to quantify your degree of confidence in general operations and maintenance of the canal.

Now, certainly the change cannot result in no difference in maintenance and operation. How would you quantify what the difference will be?

Ms. PATTERSON. We have a lot of work with the Panamanians to do in the next 5 years to set up a structure that will maintain qualified personnel of both nationalities in the post-2000 period. The Panamanian Government, believe me, is very concerned about this. They are trying to maintain, I think, the top 17 personnel post-2000, most of whom, frankly, are eligible for U.S. retirement benefits and may take it.

But from the standpoint of operations right now, it is largely on Panamanian hands except for the top management position.

Mr. TORRICELLI. Well, shippers that I talk to tell me there is already a perceptible difference in maintenance and efficiency in the operations of the canal.

Do you have any reason to believe that is not the case?

Ms. PATTERSON. It is our understanding that is not the case. The Panama Canal Commission, we think, does an excellent job of managing the canal.

Mr. TORRICELLI. And the frequency of dredging, the repair of the locks, the maintenance of the equipment, you consider that it would be equal to levels of several years ago?

Ms. PATTERSON. Certainly in recent years, yes.

I think shippers are concerned about the post-2000 period. There is no question about that.

Mr. TORRICELLI. But for the record, they are not alone.

Mr. SMITH. I think the Panamanian Government is also concerned about those types of perceptions. I understand that in 1997 there is going to be a conference that the Panamanians are going to hold precisely for this purpose, with regional countries which do depend on the canal so much, and the global shippers.

Mr. TORRICELLI. Well, Mr. Chairman, finally, to conclude, we may argue on the question of whether or not there is a deterrent effect or the canal can be defended as well with American forces present. I assume we all agree on the question of counter-narcotics for Central American and the Caribbean generally. The bases of operation Panama are irreplaceable. I know of no other facility or no other means by which we could have the same radar capabilities in the air, the same presence in the region to deal with narcotics trafficking as we do with our presence in Panama. It is, therefore, an irreparable loss if there is not some continuing presence.

Can we generally conclude my questioning by agreeing on that point?

General WALSH. Sir, I would agree with you that the role that Howard plays in the aviation campaign against the counter-narcotics down there is extremely important. Whether it is irreplaceable or not, I think is a question to be answered.

Mr. TORRICELLI. Well, I am leaving, I am going to conclude my questioning by saying irreplaceable because I know of no facility. During the course of this hearing somebody else would like to name another scenario or another facility that would have the same proximity, the same ease of operations, I would be glad to hear it.

From my experience in the region, I think it is irreplaceable, and the United States needs to go forward considering not only the defense of the canal, but our narco-trafficking operations with that very much in mind.

Thank you, Mr. Chairman.

Mr. BURTON. Yes, sir.

Ms. PATTERSON. Dan.

Mr. BURTON. Sure, we will be happy to yield to the cosponsor of the resolution.

Mr. TAYLOR. General, is the base in Honduras capable of conducting AWAC flights, P–3 flights, E–3 flights?

General WALSH. Yes, sir, it is.

Mr. TAYLOR. So that would——

General WALSH. I assume you are talking about Soto Cano, the air base?

Mr. TAYLOR. Yes, sir.

OK, so, it is not like we have all of our eggs in one basket in response to Mr. Torricelli's question, but obviously Howard is an asset that is worth keeping.

General WALSH. Yes, sir. The only thing I would caution about Soto Cano is that it is a Honduran base. There is no base agreement there, as I am sure you are aware. And whether you can count on that sort of arrangement is very questionable.

Mr. TAYLOR. Thank you, I yield.

Mr. BURTON. One thing, and then I will yield to Representative Ros-Lehtinen.

Did you have any figures on what it would cost to replace some of the very important intelligence gathering facilities, radar facilities, and other security facilities we have in Panama elsewhere in the Caribbean or in Latin America?

Mr. SMITH. Mr. Chairman, I do not think we have those costs right now. This is part of this review that we are doing, and we would be happy to share those with you when they are available.

Mr. BURTON. Do you know when they are available? Because we are under severe budgetary constraints. We are trying to figure out how to cut and defense is one of the areas that is being looked at. I think it is important when we are talking about national security that we have all the facts before us.

Mr. SMITH. Yes, sir.

Mr. BURTON. And if closing down large parts of defense facilities in Panama is going to cause an increased cost someplace else, we need to know that.

So do you have any idea how quickly we could get that information?

Mr. SMITH. We will get that to you as quickly as possible. I would hate to——

Mr. BURTON. Would you talk to Secretary Perry and tell him this is a priority because we have been told that we have to make a decision in the next year to 18 months. Otherwise, a lot will be lost. Going back in there is going to be every bit as costly or more costly than rebuilding the whole thing for a lot of those facilities.

Representative Ros-Lehtinen.

Ms. ROS-LEHTINEN. Thank you, Mr. Chairman.

Knowing that there is a vote, I just want to follow up on Mr. Torricelli's question about our counter-drug operations.

How will our mission change when all the U.S. properties are returned to Panama by December 31, 1999? How will our mission change? Who will carry forth, as Mr. Taylor explained, that he has other alternatives who will pick up the operations?

Mr. SMITH. I would just say simply that, of course, counter-narcotics, the operations, will remain an extremely high priority in this administration and in any future administration, and the mission will not change. How we conduct the mission may have to be altered.

Ms. ROS-LEHTINEN. How will they have to be altered?

Mr. SMITH. Well, for example, as we were just talking about Howard Air Force Base. If we do not have access to Howard Air Force base, an alternative will have to be found, and there are ways of doing that. It may be more costly, because you may have

to fly from, for example, Roosevelt Roads or someplace which is farther away.

And remember also that the counter-narcotics operations, the air operations are just one aspect of it. There are many other functions and elements all over the region.

So the mission will not change. It is just how we conduct it may have to change.

Ms. ROS-LEHTINEN. Would you expect, following up on the chairman's question, that the funding would have to be allocated in a different manner, since the mission remains the same, but how you conduct it will differ? What kind of effect will that have on the funding that the administration has for this counter-drug program?xxx

Mr. SMITH. Well, it may have to be altered by spending the money in slightly different areas perhaps. I am afraid I cannot be any more specific than that right now. And it may be more costly.

Ms. ROS-LEHTINEN. In the SOUTHCOM operation, do you know when a determination will be made as to when—where that will be moved and when?

Mr. SMITH. The headquarters?

Ms. ROS-LEHTINEN. Yes.

Mr. SMITH. That decision will be made very soon. Actually, it is on Secretary Perry's desk now.

Ms. ROS-LEHTINEN. Is Miami the number one? [Laughter.]

Ms. ROS-LEHTINEN. Or way up there?

Mr. SMITH. I do not know. He has been given options. He has not been given a recommendation. He has been given a number of options.

Ms. ROS-LEHTINEN. We know the competitive nature of the business.

Mr. SMITH. Yes, ma'am.

Ms. ROS-LEHTINEN. But to put in my little local perspective, certainly Miami would be a well suited to carry forth that same mission.

Mr. SMITH. That is all I know, it will be——

Ms. ROS-LEHTINEN. You can pass on my recommendation——

Mr. BURTON. I hope we do not lose your vote on this bill over that issue.

Ms. ROS-LEHTINEN. Thank you, Mr. Chairman.

Mr. BURTON. This base in Honduras, Soto Cano. Is that how you pronounce it?

Ms. PATTERSON. Yes, sir.

Mr. BURTON. We do not have a formal agreement with that country, as I understand it, on that base. Is that correct, Ms. Patterson?

Ms. PATTERSON. Mr. Chairman, we have a handshake there.

Mr. BURTON. You have a handshake. So you have a handshake in Honduras. And if you close down the Panama Canal, and they say, hey, we do not want you there any longer in Honduras, aren't we going to have a problem finding some place else at a reasonable cost?

Ms. PATTERSON. To do our counter-narcotics operations?

Mr. BURTON. Well, not only that, but for defense of the Panama Canal and everything else. You are not sure?

Ms. PATTERSON. Well, I mean I would defer to DOD on the cost issue, but I think we are all agreed, certainly in the U.S. Government, that we will continue to project our operations from somewhere. The question is finding somewhere at a reasonable cost, and evaluating those different options, and that we are doing right now.

Mr. BURTON. I think that the majority of the committee is very concerned. And I think probably the Congress, too, when this issue is broached to them or by them; that there are security concerns and cost concerns. And I think that the administration, I guess you are looking at this right now, but I am sure that even if we did not pass legislation, we would urge some kind of a resolution of this very quickly, because I talked with some of the major brass, pardon me, officers in SOUTHCOM and otherwise, from elsewhere, and they told me that time is of the essence. As each day and month goes by, things become irreparable, and we have to make some decisions very quickly. Otherwise, we will not be able to go back.

Ms. PATTERSON. We agree fully with that.

Mr. BURTON. Did you have any questions of this panel, Mr. Frazer?

Mr. FRAZER. Yes, Mr. Burton, one question.

Ms. Patterson, Panama is said to be a major transit point for cocaine coming to the United States as well as for laundering money. Last year it was denied certification under the Foreign Assistance Act. However, the President used his waiver to give Panama assistance. This year it was fully certified.

Can you tell us if it is fully cooperating with the United States on narcotics control?

Ms. PATTERSON. Congressman, yes, this year we did fully certify Panama, largely in recognition of the progress that they had made on counter-narcotics in the past year. I think the Panamanian public, and certainly the new government, has come to a realization that drugs are very corrosive.

In recent months, the government has taken a number of steps to combat money laundering, including more regulations on bearer bonds, criminalizing money laundering, setting up a financial crimes investigative unit, appointing a drug czar, and they continue to work closely with us on interdiction and eradication. So we are, frankly, pleased with the progress the Panamanian Government has made, although, of course, there is a lot more to be done.

Mr. BURTON. Thank you, Mr. Frazer.

Well, I want to thank the panel for their patience and their answers. We have a vote on. We will recess and we will have the next panel when we come back.

Let me just say that we have a tremendous number of bases and personnel in Europe, and we have a much smaller force and base structure in Central and Latin America, despite the fact that we have got a major problem with drugs and drug trafficking coming out of that area, and that is a threat to internal security in this country. The crime rate is out of control. Our priorities ought to be reevaluated. Central American and Latin America is every bit as important to us as Europe now, especially with the end of the "cold war."

For us to close down the Panama Canal without a great deal of thought and without negotiating with that government, when 82 percent of the people down there say that they would like for us to stay, seems irresponsible.

I hope you will convey that to the State Department and the Defense Department. I hope the administration will take a hard look at that and report back to me and to our subcommittee, because I think that you are going to find that the vast majority of Congress, when we get into this issue, is going to want to have some kind of a presence there. That means we are going to have to start negotiations pretty quickly.

And with that, we will recess for about 5 minutes.

[Recess.]

Mr. BURTON. The next panel we are going to call, Colonel John Cope, Senior Fellow with the Institute for National Strategic Studies, the National Defense University, and Dr. Richard Millett, Director of the National Programs for the North-South Center.

Are we missing Colonel Cope? There he is.

We appreciate very much your patience. This is one of those days when we are running back and forth. They are all like this. The Contract with America is making us all lean, mean, and thin.

We will start with you, Colonel Cope.

## STATEMENT OF COLONEL JOHN A. COPE, SENIOR FELLOW, THE NATIONAL DEFENSE UNIVERSITY, U.S. ARMY (RETIRED)

Colonel COPE. Thank you very much. It is a pleasure to be here. It is, as they say, a first time call. This is a first time testifier. I guess I need to point out that I am retired. I am not directly associated with the government. I work for a research institute at the National Defense University. I am not speaking on behalf of the government: I am not one of its witnesses.

I have provided a report, sir, which I would like to put into the record.

Mr. BURTON. Thank you.

Colonel COPE. Unless there is a change in current policy, we will leave at the millennium. I, like you, am very concerned that there has been no serious discussion about whether or not this departure is in our strategic interest. And I am very concerned that the window is closing on the U.S. side. Forces are being deactivated as they leave Panama. The ability to retain forces there is decreasing. Budgetary windows are closing.

On the Panamanian side, they are under a great deal of pressure to develop a marketing plan that looks at all the reverted territory. They must have a complete picture to do that. So it is very important to make our intentions known, if we do indeed have intentions to try to retain some bases there. We should not be coy with them. We should make our position very clear.

I represent a viewpoint that says we need not back into departure by default—we need to make a strong assessment of our interests in Panama. I am very disturbed that there has not been much of a dialogue. I was present, so to speak, at the creation of the Treaty Implementation Plan back in 1986, when we started looking at this issue. It was very difficult then to talk about treaty implementation within the Defense Department. In the early 1990's, it

was very difficult to talk about it in the interagency arena, and now it is very difficult to talk about it in public. We have got to get this issue out and make some reasoned judgments.

My paper basically attempts to take a look at our potential security interests at the year 2000. I address some myths that affect decisionmaking. And finally, I look at some strategic considerations that we should think about. Let me quickly go through some of this material, sir, and I will be happy to develop it more in the questioning period.

I think that we first have to recognize that our strategic interests are primarily in the Caribbean Basin area, to include northern South America. This area has been the focus of our attention in this hemisphere and will continue to be so in the future.

We have three strategic concerns that dealt not only with transiting of the canal, but also with preventing hostile powers from gaining a position in the hemisphere, maintaining bases and so forth. All of these strategic interests are tied to the past—a product of the cold war.

Today, our real strategic interests are focused on encouraging democracy. And as we talk about encouraging democracy, the administration says repeatedly in all of its strategic documents that we are interested in democracy at critical locations. And clearly, Panama in this hemisphere is a very critical location.

A second U.S. interest is expanding access to regional markets. A third would be responding to the criminal drug trade—I will come back to that one.

One peace interest that has not made the master list yet, but is certainly very real, encompasses the possibility of confrontation within the hemisphere over issues of economic sovereignty and interstate conflicts stemming from historic boundary disputes. This is very real as we have seen recently in the Peru/Ecuador border situation.

There are three areas of growing friction. These include the projection of unsanctioned offshore claims out to 200 nautical miles; the enforcement of international regulations governing fisheries; and the heightened border tension that I mentioned. A visible U.S. military presence in the region has a restraining influence up to a point. The presence also makes a very positive contribution to diplomatic efforts to end the conflicts. Southern Command actually is doing a great deal in this regard with the Peru/Ecuador conflict.

There are three myths that I address in the paper. The first is that military force can defend the canal. The second is the military engagement in Panama stunts governance there. And the third is that the Panama Canal issues are only bilateral. The last is the easiest—it is really a multilateral issue which you yourself have mentioned in the course of this hearing. Clearly, the economic interests of Peru and Ecuador in the canal, for example, are very great.

Lastly, my three policy considerations include: a belief that the sound logic of having an overseas presence still applies, keeping the central position in the counter-drug operations is very important; and finally, keeping the strategic symbolism of our presence in Panama is extremely important. I would be happy to elaborate on those more in the question period.

[The prepared statement of Colonel Cope appears in the appendix.]

Mr. BURTON. We will have some questions for you in just a few moments.

I would like to ask you one question before we go to Dr. Millett. Were you stationed at Panama during active duty?

Colonel COPE. Yes, sir, I was. I was there for 4 years.

Mr. BURTON. OK, thank you.

Dr. Millett.

## STATEMENT OF RICHARD MILLETT, DIRECTOR, NORTH-SOUTH CENTER

Mr. MILLETT. Thank you very much, Mr. Chairman.

I made my first trip to Panama 29 years ago as a graduate student; my last one, 6 months ago, when I attended the Presidential inauguration. So I have been following events in that nation for a long time with considerable interest.

As the date for the transference of the canal to Panamanian control approaches, debates over this issue are likely to grow more heated. And in this context, Panamanian reality can all too easily be replaced by stereotypes and prejudices. Hopefully, this hearing will curb this tendency, and help us focus on the long-range substance of the U.S.-Panama relationship.

Threats to Panama and the future of the canal come from many sources and assume a wide variety of forms. As Colonel Max Manwaring has noted, with the end of the cold war, however, conventional military attack against the Panama Canal became an anachronism. Possible threats from within Panama are of greater concern. These would include both international terrorist attacks and civil conflicts among Panamanians. Here too the threat has diminished in recent years, but future problems in these areas cannot be totally discounted.

Perhaps the greatest threat to the canal comes from the continuing deterioration of the environment in surrounding areas. The river basins which provide the water for canal operations have been extensively deforested. While the process has slowed, it has not been halted. Sedimentation continues to buildup in the principal lakes. The costs of dredging continue to rise; in part, because of the obsolescence of the equipment. All of this undermines the survivability of the canal.

Unless this threat is countered, any effort and expense preparing to meet more conventional menaces may simply be wasted.

And then there is the menace of international criminal operations. While these do not directly threaten canal operations, they do present a major danger to the Panamanian state and are a constant issue in U.S.-Panamanian relations. And these, as I note in my prepared statement, go far beyond simply narcotics trafficking.

The Panama situation is far from unique and it is not a product of any lack of government effort or will. It is sadly a reflection of our time in which the power and resources of international criminality dwarf those available to smaller states. In this context, the future of the U.S. military bases becomes an especially important, but highly complex issue.

The possible renegotiation of base rights in Panama offer both advantages and problems for the United States. Retaining a presence at Howard, the jungle warfare school at Fort Sherman, the naval station at Rodman would facilitate operations in Latin American and the Caribbean. The facilities available at Sherman would be especially hard to duplicate elsewhere. Howard has been invaluable in drug interdiction efforts and in supplying operations throughout the hemisphere. In addition, a continued presence in Panama provides a degree of security for that nation and its leaders. It may even make Panama more attractive to potential investors.

But the negatives are also very real. U.S. bases in other nations are always a source of potential problems, both legal and political. Panama also has a long history of looking to the United States to resolve its problems, and then blaming Washington for much of what goes wrong. Continued presence of military bass will exacerbate this and will reduce chances that Panama will take full responsibility for its own security.

The U.S. bases would make Panama and the canal a more rather than less attractive target for potential terrorists. If a U.S. military presence exists in Panama the temptation to become involved in that nation's internal affairs—and the tendency of some in Panama to seek such involvement—will be magnified.

Bases in Panama may be convenient, but they are not vital to our post-cold war defense posture. And here, I think, the case of our bases in the Philippines proves illustrative.

On balance, I believe the risks and costs of maintaining our bases in Panama outweigh the advantages to the United States. There is one additional factor which I think might well be considered. Panama's ability to absorb and effectively utilize the reverted areas to be turned over by the military is increasingly questionable. No groundwork was laid during the years of military rule and while the Endara administration established the framework for dealing with these areas the paralysis which characterized that administration left Panama even further behind the curve.

If Panama were to request some extension of U.S. presence in order to allow them more effectively to manage these territories, we should give such a request serious consideration. The future of the canal is highly dependent upon Panama's ability to effectively utilize such territories. If these areas are not carefully developed, obsolescence and decline will be the dominant trends for the canal's next century.

The time remaining until Panama takes over operation of the canal is short. The issues are numerous and difficult. Any discussion over the future of U.S. bases should not be allowed to obscure our fundamental mutual interests—democratic development, regional peace and security, and the free flow of world trade. We need to take Panama seriously as a nation, and Panamanians need to realize that they must pay the bulk of the costs associated with achieving full sovereignty and assuring future development.

With our without a U.S. military presence, we will retain a strong interest in Panama's future, and no decision or nondecision on the future of the bases should be allowed to obscure this fact.

Thank you very much.

[The prepared statement of Mr. Millett appears in the appendix.]

Mr. BURTON. Thank you.

Some of the things that you said there are troubling. You are a student of the canal zone, since you have been down there for all these many years. You said that you thought it would be a more attractive target with U.S. military forces there than if we extricated ourselves.

One of the things that would really cripple at least part of our economy, as well as possibly impair our defense capability—since we use the locks for transiting some of our naval vessels—would be to blow up one of the dams, or to make it incapable of transiting that whole canal zone.

If we were completely out of there because of the economic ramifications of some terrorist activity, what makes you believe that it would not be our even more attractive target because it would not be as secure as it is now?

Mr. MILLETT. I am glad you asked that question, Congressman Burton.

First of all, Panama has no international enemies. Unfortunately, we do.

Mr. BURTON. Right.

Mr. MILLETT. To the extent that it is perceived as a U.S. military base, is a U.S. interest, I think this might be what would be more attractive. The dangers, fortunately, I think are low in any case. But, you know, U.S. military bases throughout Europe have been targets. In the Middle East, U.S. military presence are certainly targets. These attracts terrorists like flies to honey. And if it is not seen as of particular U.S. interest, I think it is a little less likely.

The economic issue, again, it is much more important to other nations, like Peru and Ecuador. Economically, we can get along fairly well without the canal. A lot of railroad interests in the country would probably like to see it filled in so that we could get emphasis much more on our transcontinental rail interest. Shipping interests are already operating on the margin.

My strongest point still is that we have got to look at this obsolescence, the sedimentation problem, the water flow problem. That is the real menace. That one is not going to go away, and the Panamanians are probably not going to have the resources to deal with it.

Mr. BURTON. Well, that is very interesting. So what you are saying is that, as there is deforestation taking place down there, and there is more sedimentation getting into the canal, the dredging is going to become more and more difficult, and also the lakes are going to be more of a problem.

Mr. MILLETT. That is how it is right now.

Mr. BURTON. So how is Panama itself? I mean you are talking about the economies. Right now, one of the things that we are concerned about is international trade in our hemisphere. We have passed NAFTA and the GATT agreements. There is a growing sentiment in the Congress that if we are going to be competitive with the European Common Market, we are going to have to set up one of our own.

If you take countries like Bolivia, Peru and others that depend on the canal for their economies, and if the Panamanians are not

capable of keeping that canal open, not only would it have an adverse impact, it seems to me, without any terrorist threat, to the U.S. economy. Forty percent of our agricultural commodities transit the canal. But it also would have a tremendously adverse impact on those Latin American countries.

So I guess I do not understand that part of your argument.

Mr. MILLETT. OK, first of all, the costs are not that great a differential between transiting the canal and the potential costs of transiting on land routes. A lot of the oil traffic, for instance, have already gone to pipelines.

Mr. BURTON. You are talking about in Latin America now too?

Mr. MILLETT. Yes, for everybody. The Mexicans are interested in developing across these——

Mr. BURTON. What about Bolivia, and Colombia, and those countries?

Mr. MILLETT. It helps their trade. It is not necessary to it. But, again, the menace is the canal just becoming obsolete, and that is why I have said that if to stretch out their ability to utilize these reverted areas, which are massive, they cannot even afford to maintain. If they do not develop them, if they do not invest in them, they will not have the revenues to make the canal competitive. The canal cannot keep going just on shipping revenues. They are already close to the maximum tolls they can charge without becoming noncompetitive with other routes and bluntly entering into that point where as you raise the tolls you actually get less revenue because a lot more of your traffic starts going by alternate routes, the so-called canal secus or dry canals.

They have got to get shipping ports, container ship exchange ports, ship servicing. Right now it is cheaper for U.S. ships to bunker by going all the way to Long Beach than it is to fill up in Panama because of the various odd regulations involving oil, the obsolescence of the refinery.

Mr. BURTON. I understand and I get your point. I guess, I guess I am trying to get straight in my own mind some of your arguments. If the canal zone is obsolete and if it closes down because of the sediment or terrorist or whatever it happens to be, my major question is, when we are talking about creating some kind of a U.S.-Latin American economic coalition, if you look at Peru, Bolivia, Colombia, I have been down to those countries, part of them, and to build railroads and the infrastructure necessary to get commodities to market without having benefit of the Panama Canal, and not to mention that the country of Panama itself would suffer severely if they did not have the economic benefit of the canal, it just seems to me that that would be a real drawback, not just for Panama and the United States, but for a large segment of Latin America, with whom we would like to see some economic development.

Mr. MILLETT. It would be a disaster for Panama, that is absolutely no doubt. For the other countries, as I said, they are already shipping a lot of their stuff by other routes, partly because the largest tankers cannot go through the canal; partly because in some cases some cargoes are already cheaper to ship—a lot of stuff now goes by air.

But, no, we have an interest in keeping it open. We have got a great advantage. We have got major good ports on both coasts. We can trade with anybody and ship things overland from Houston to San Diego, if we need to do it. Peruvians, the Ecuadorians have a much bigger problem. The Colombians, fortunately, have ports on both coasts too, so they are a little ahead of the game there.

Mr. BURTON. Colonel Cope, you were down there for 4 years; is that right?

Colonel COPE. That is correct, sir.

Mr. BURTON. Now, can you give us—I know when I talk to a number of generals, I guess I am really not at liberty to tell you who they are, but I talked to some very high level individuals, and privately they told me that they thought that it was in our national security interests and in the interests of our economy to have a military presence there, although they would not say that publicly.

But you are now retired. You are not bound by the political problems that currently serving generals and brass are bound by.

Colonel COPE. Nice feeling.

Mr. BURTON. So as a person who has been down there, in layman's terms what did you see? What are the main reasons that you think it is absolutely essential that we keep that canal open there? Was it because of the jungle training center we have down there? Was it because of the radar or the bases we have? Was it because of drug interdiction? What were the things that you think are most important as far as keeping the canal open?

Colonel COPE. Sir, I have categorized them into three areas. One is the overseas presence—if we are concerned about this hemisphere, if it is important to us, then it is imperative, I think, like in Europe with the bases that exist there or in the Far East, that we have an overseas presence that allow us to do some things in the hemisphere that really are very difficult to do from the United States.

It is a way of underpinning democracy. It is a way of underpinning our commitment to the region that you just cannot do from the United States. It is a very warm and personal thing to know that you are out in the area, to be out there with all the other countries.

It provides us the ability to make a statement in regard to our interest in this area economically. There are a lot of countries from other parts of the world that are also interested in this region—Japan, European Union—they have economic interests of their own. To pull back from Panama is a retrenchment, in their view, and opens the door. It is good to have a very firm statement that we have a lot at stake in this region, and we are going to have a force forward.

You have spent a great deal of time talking about the war on drugs. The central position that we have in Panama close to the source countries and astride many of the routes going up to the United States is extremely important. It cannot be replaced.

If you had to move the aircraft from Howard up to the United States, for example, we are talking about an additional probably 8 hours, 2,000 miles distance. There is a real increase in sortie rate to maintain surveillance over the region that we have today, and a major cost increase. There would be a great deal of congressional

encouragement to decrease the cost increase, I am sure, because it would be extremely expensive to do what we are doing now from Panama.

If you decrease costs by cutting back your flights from the United States, in addition to no presence in Panama, the signal that we send to countries in the region, and to adversaries in the counter-narcotics business, is rather significant. The United States has taken a step backwards. We are not really serious about what we are doing to counter the flow of illegal drugs.

By taking the command out of Panama, you lose a driving force in regional coordination to energize efforts to move after the drug lords. If the Command leaves Panama, I think you would have a deflation in our implementation of the counter-narcotics strategy that would be very difficult to replace.

Mr. BURTON. What years were you down there?

Colonel COPE. I was there from 1985 to 1989; summer of 1985-summer of 1989.

Mr. BURTON. So you were there—well, let me see, I am trying to think of when the war in Nicaragua concluded. You were there during the time the Sandanistas were in power.

Colonel COPE. Sir, I was in Panama at the tail end, and then I was assigned to the State Department as it ended.

Mr. BURTON. OK. One of the concerns that we have had, I was in Nicaragua and Guatemala, Honduras, El Salvador, and during the invasion of Grenada, we were down there, and we saw a lot of weapons and a lot of moves by Castro, at that time the Soviet Union as well, but by Castro primarily, to try to undermine some governments and subvert some governments down there.

Do you think that Mr. Castro is still in power, and he is kind of shaky right now, and we are trying to push him over the edge, but do you think that, assuming that he stayed in power, that one of his targets might be the canal in some way?

Colonel COPE. No, sir, I do not.

Mr. BURTON. You do not believe that?

Colonel COPE. I do not believe that. He has economic interests that rely on the existence of the Panama Canal and it being open.

Mr. BURTON. I see. So you do not——

Colonel COPE. He does not want to jeopardize that.

Mr. BURTON [continuing]. Think that is a danger as far as a threat?

Colonel COPE. No, sir. During the height of the cold war, when he did have the ability to do something, he never tried to undermine the stability of the canal zone.

Mr. BURTON. Because it was in his interest to——

Colonel COPE. Yes, sir, it was in his interest to keep it going.

Mr. BURTON. I see. Very good.

Well, I would like to have your statements for the record because I think your statements are much more comprehensive, and I and my staff will go over those before we go to a markup on the legislation.

But I guess it is your feeling in a nutshell that we ought to extricate ourself from Panama; and it is yours that we ought to stay there.

Mr. MILLETT. With a qualification. I think we ought to do it slowly. And, again, if the Panamanians want to renegotiate a presence for some years, I think we ought to seriously consider it because the issue that does not intend to get mentioned is their ability to utilize these reverted areas is marginal at the moment. If they get all this land in the next 5 years, they may just simply get overwhelmed, and that in the long run will actually jeopardize the future of the canal.

Mr. BURTON. I see. So you think that a negotiated agreement that would keep U.S. forces there for some period of time would be agreeable?

Mr. MILLETT. It has advantages that may outweigh the disadvantages. On any side, this is a close call.

Mr. BURTON. OK, thank you.

Colonel COPE. In my view, I think we should be there. I think we should start negotiating with Panama soon. I think we should ask them, not wait for them to ask us. I think we should deal with them as one sovereign state to another sovereign state. We should demonstrate what we are doing clearly to the rest of the hemisphere in order to get rid of this colonialist and imperialist image that still lurks in the region.

Mr. BURTON. I think one of the things that is coming out of this hearing with all three panels is that I think that I and the committee ought to go down there and maybe meet with the President of Panama and have a heart-to-heart talk with him about their views and their long-term goals. Maybe we can get over this gap of who should start the negotiations first.

So thank you very much for your testimony. I appreciate your tolerance in waiting for us.

Colonel COPE. Yes, sir.

[Whereupon, at 4:18 p.m., the subcommittee was adjourned to reconvene at the call of the chair.]

# APPENDIX

TESTIMONY OF PHILIP M. CRANE, M.C.
TO THE
SUBCOMMITTEE ON THE WESTERN HEMISPHERE
OF THE HOUSE COMMITTEE ON INTERNATIONAL RELATIONS
ON
U.S. STRATEGIC INTERESTS IN PANAMA AND THE NEED FOR A 21ST CENTURY BASE/CANAL RIGHTS AGREEMENT (H. CON. RES. 4)
MARCH 9, 1995

MR. CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, LADIES AND GENTLEMEN:

Much appreciated is the opportunity to appear before you today on U.S. interests in Panama and on H. Con. Res. 4, a resolution calling upon the President to negotiate a base and canal rights agreement with that nation. As the Panama Canal Treaty of 1977 is due to expire in less than five years, I want to commend the chairman and members of this subcommittee for their timely inquiry into our long term strategic interests in Panama and how they might best be met.

Completed back in 1914, the 51 mile long Panama Canal is still one of the engineering marvels of the modern world. Not only does it enable more than 12,000 ships a year to shave several weeks off their journey from the Atlantic to the Pacific or vice versa but, during its 80 year history, over 5.6 billion long tons of cargo have been shipped through its locks. Moreover, the Canal's significance as an international trade route continues to grow. In fiscal year 1994, 13.4% of U.S. trade, 10% of all Latin American trade, and 3.7% of the world's trade transited the Panama Canal. In addition, over 8 million tons of cargo from the Caribbean Basin alone were shipped through it to Pacific coast ports in the Americas and elsewhere.

Nor is the significance of the Canal to the U.S. and the economies of the region likely to decline in the foreseeable future. Just the opposite in fact. Right now, tariffs on Latin American products are 3 1/2 times, on average, as high as those in the U.S. But, last December, after congressional approval of the GATT agreement, an understanding was reached at the Summit of the Americas conference to construct an inter-American free trade area by the year 2005. If that effort advances, economic growth in the region could be increased by as much as 1.5% a year according to the Institute for International Economics. Moreover, if past history is any guide, that may be a conservative estimate. In the decade following enactment of President Reagan's Caribbean Basin Initiative, which extended duty-free treatment to a variety of Caribbean products, U.S. exports to the region nearly doubled in value, rising from $5.8 billion in 1983 to $12.3 billion ten years later.

As Chairman of the Trade Subcommittee of the Ways and Means Committee, I can assure you that this trade potential is not lost on our neighbors to the south. In addition to the action taken by the Summit of the Americas conference, four new regional trade groupings have come into existence in the past two years (excluding NAFTA). Also, Chile is very interested in joining NAFTA and has been invited to apply for membership. Likewise, a number of other nations in the hemisphere, including Panama, have indicated a similar desire. Moreover, a strong case can be made for extending NAFTA equivalency to our Caribbean neighbors since there is evidence, particularly with respect to textiles and apparel, they are suffering a loss of trade and investment to our NAFTA partner, Mexico. But, in a very real sense, the success of all these arrangements will depend, to a significant extent, on the steps taken to preserve, promote and protect the Panama Canal in the 21st Century.

Since the days of the conquistadores, Panama has been a focal point of trade in the Western Hemisphere. For two centuries or more, the mineral wealth of the Andean region and finished products from Spain flowed back and forth across the isthmus in volumes sufficient to support a colonization effort unparalleled in the annals of history. Later, it was the turn of the engineers to be inspired by Panama's potential, the eventual result being the multiple lock waterway that has served the nations of the world so well for the past 80 years. However, their work can no more be taken for granted than can the promise of free trade throughout the hemisphere. Should the Canal be closed for a lengthy period of time, due to a terrorist attack, a military assault by a renegade nation, civil disturbances or mechanical breakdowns, the economic benefit of lower tariffs could be diminished or offset altogether by the increased cost of shipping goods around Cape Horn.

For hemispheric trade to reach its full potential, it is essential that we, and all our free world neighbors to the north and south, have every assurance that the Panama Canal will remain open and operate efficiently well into the 21st Century. At some point, the Canal may need to be expanded or complemented, but at least until that time comes 25, 30, or 35 years hence, the defense and regular operation of the Canal should be guaranteed to the greatest possible extent. And the best way to guarantee them, in my view, is to reach a base-lease, Canal-defense agreement with Panama that would take effect when the Panama Canal Treaty expires December 31, 1999.

As the author of H. Con. Res. 4, which calls upon the President to enter into negotiations with the Government of Panama for such an agreement, let me further observe that the time for these discussions is ebbing away faster than many people

realize. Absent a follow-on arrangement, the terms of both the Panama Canal Treaty of 1977 and the accompanying Neutrality Treaty provide that all those facilities must be turned over to the Republic of Panama by the turn of the century. Now less than five years away, that deadline cannot be met unless a carefully planned and well orchestrated withdrawal of forces and closing of facilities is executed over a several year period. In fact, that withdrawal process is well underway, with approximately 15% of these facilities having been closed or partially relinquished already. In another few years, it will have progressed to the point that a base-lease arrangement will be, for all practical purposes, moot. The cost of mounting a return to bases previously closed down would, in all likelihood, be prohibitively expensive.

That being the case, it behooves us, in my opinion, to see if a base-lease, Canal-defense agreement can be reached with Panama now -- before that option is overtaken by events. Such an arrangement need not cover all 14 of the bases once maintained by our armed forces. Nor should any lease deal governing the waterway itself bring into question Panamanian sovereignty over the Canal. Instead, what I would like to see is the negotiation of a business-like arrangement between the two nations wherein the host country, Panama, is cast in the role of owner and landlord and the client state, the United States, becomes the tenant and operator of facilities covered by the terms of a conventional lease. Also, since Panama does not have an army of its own, the agreement might also include other things such as a commitment by the United States to defend all of Panama from attack, not just the Canal.

Both the U.S. and Panama have much to gain from such an understanding. Not only would the Panamanian government collect rent and dividend payments as a result of the lease deals, but the jobs of at least 6,000 of its citizens would be preserved, as would the economic activity generated by our remaining military installations. Also, depending on the scope and terms of the understanding, Panama could: (1) save the $80 million or so per year the U.S. currently spends on utilities plus maintenance and (2) forego the expenditure of millions more that would otherwise have to be devoted to national and canal defense.

As for the United States, one need not look beyond some recent projections to appreciate the importance of a comprehensive, post-2000 agreement with Panama that assures the defense and regular operation of the Canal. According to the February, 1995 Economic Report of the President, successful establishment of hemispheric-wide free trade area "... will create a market of over 850 million consumers with a combined income of roughly $13 trillion." In that event, a study conducted by the Institute for International Economics foresees U.S. exports to Latin America increasing by some $36 billion over the level that would otherwise be expected. Not exactly peanuts.

Having followed Latin American affairs over the years and having talked with many Panamanians in recent months, I am well aware of the skepticism with which the United States is viewed in certain quarters south of the Rio Grande. However, I also know, from both polls and conversations, that most Panamanians favor a continued U.S. military presence in their nation after the current Canal treaty expires. In fact, survey after survey has shown that at least two thirds of those Panamanians polled favor a follow-on agreement that would allow the U.S. to retain at least some of its military bases in their nation after the turn of the century. One of the latest, taken just last September by CID-Gallop of Costa Rica, puts the figure in excess of 80%.

Serving as I do in this House, I am also aware there may be some concern about military bases in the U.S. having to close if four, five or six of our current bases in Panama were to be kept open well into the 21st century. But, at the same time that concern should be acknowledged, two other points need to be made. First, at least four, and perhaps as many as six, of our existing military bases in Panama are very important to the conduct of our hemispheric security, anti-drug, and canal-defense efforts. For instance, Fort Sherman is invaluable as a jungle warfare training school and Howard Air Force base enables our military personnel to fulfill their hemispheric responsibilities more quickly, cheaply and effectively. Beyond that, there is good reason to believe that many Americans strongly support our continued military presence in Panama. A nationwide poll, taken a year ago by the Marketing Research Institute of Pensacola, Florida, indicated that nearly two thirds of those polled (65.5%) felt that the U.S. should maintain military bases in Panama if the Panamanians were agreeable.

Given that Americans and Panamanians seem to be of much the same mind about our bases in Panama, and that both nations stand to benefit greatly from a comprehensive, post 2000 base-rights, Canal-defense agreement, my hope is that one can be worked out before our base closure efforts in Panama advance much further. While I can understand not wanting to give the appearance of being modern day Yankee imperialists, it seems to me that expecting Panama to make the first move towards negotiations leaves that impression more than if Uncle Sam were to take the initiative and ask for talks. For many Panamanians, having to ask us to negotiate is like begging for a favor; it makes them feel like they are being put in a subservient position. But, if the U.S. makes the first request, Panama can respond as an equal among nations.

Since the U.S. has much to gain and little to lose by making the first move under those circumstances, I encourage members of this subcommittee to lend their support to H. Con. Res. 4, which would have Congress call upon the President to initiate

negotiations for a base-rights, canal-defense agreement. Not only would prompt adoption of this "sense of Congress" resolution underscore the importance the House and Senate attach to the conclusion of such an agreement, but it would lay to rest the issue of who should take the first step.

As others are waiting to be heard on such matters, let me close by expressing my thanks once again to this subcommittee for holding this hearing. As the recently concluded housing of Cuban refugees in Panama reminds us, not all the problems facing this hemisphere have been settled, nor can the possibility of unforeseen circumstances be ruled out in the future. For economic and political freedom to prosper in the Americas in the next century, the long term strategic interests of the U.S. and Central America cannot be neglected and you are to be commended for giving them the serious attention they deserve. By seizing the moment, you are opening the door to better understanding and to the prospect of a brighter future for the U.S., Panama and all the freedom loving, freer trading nations of this hemisphere.

I'd be happy to answer any questions that you might have.

TESTIMONY BY STATE DEPARTMENT

DEPUTY ASSISTANT SECRETARY FOR INTERAMERICAN AFFAIRS

ANNE PATTERSON

Mr. Chairman, I am pleased to appear before you and members of the subcommittee today to convey to you the Administration's thinking on Panama. This small, strategically-located isthmus with a population of 2.5 million people has long merited special consideration in United States Policy. From the moment of Panamanian independence in 1903, this country has maintained an extraordinarily complex and normally productive relationship with the government and people of Panama.

You will recall that during the 1960's and 70's -- a period of burgeoning nationalism in Panama as well as elsewhere in this hemisphere and the world -- successive Panamanian governments demanded an end to U.S. sovereign-like rights in the Canal Zone and to the concept of perpetual U.S. control over the Canal. President Johnson agreed to negotiate on treaty rights in 1964. The subsequent lengthy negotiations resulted in the Panama Canal Treaty and the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal. These agreements were fully ratified by our two countries in 1979 and have been strictly observed by both parties since then.

The Noriega years, however, were a major exception to the close cooperation on shared aims that has characterized our relationship with Panama throughout the century. General Manuel Noriega assumed dictatorial powers, endangered American lives and property with assaults and declared war on the United States. Operation Just Cause unseated Noriega and allowed the reestablishment of democracy in Panama. President Guillermo Endara and his government concentrated their efforts on grounding democracy more firmly.

The current government of Panamanian President Ernesto Perez Balladares is a result of free and fair elections last year. There are unprecedented levels of support in Panama for democracy. The U.S. government enjoys a particularly smooth relationship with the Government of Panama, which I will be pleased to address later.

TREATY PROVISIONS

Mr. Chairman, you have indicated special interest in the subject of a possible United States military presence after December 31, 1999 when, according to the Panama Canal treaties, the Canal will be under Panamanian ownership and control, and there will no longer be United States military bases in that country. As you know, we intend to comply fully with the provisions of those treaties.

As the year 2000 approaches, there are three specific and related areas covered by treaty provisions which are crucial to our relationship with Panama. The first is the transfer of the Panama Canal to the Government of Panama. The second is the reversion of properties currently used for United States military basing to the Panamanian Government. The third area concerns the U.S. security relationship with Panama and the Canal.

PANAMA CANAL

Let me briefly review first the specific treaty provisions governing the transfer of the Panama Canal to the Panamanian Government. Article XIII (1) of the Panama Canal Treaty provides that upon termination of the treaty at noon on December 31, 1999, the Panamanian government "shall assume total responsibility for the management, operation, and maintenance of the Panama Canal, which shall be turned over in operating condition and free of liens and debts, except as the two Parties may otherwise agree."

It is also important to understand what the treaty does not do. The treaty is structured to provide only for the transfer of the physical assets of the Canal to Panama. It does not necessarily mandate the transfer of the Canal operation as a going concern with ongoing management structures and personnel systems. Thus, in order to ensure continuity in the Canal operation, the United States and Panama must create legal and policy structures to supplement the treaty.

According to U.S. law, the Panama Canal Commission, under the general supervision of its Board of Directors, is "responsible for the maintenance and operation" of the Canal. Presidential authority with respect to the Commission is exercised through the Secretary of Defense, who has delegated his responsibility to the Under Secretary of the Army. That designee is by law a member of the Board of Directors, along with the four other U.S. citizen members. Undersecretary of the Army Joseph Reeder is currently also Chairman of the Board of Directors.

The State Department has a special statutory role with regard to the transition of the Canal to Panamanian ownership and control. U.S. law provides that the U.S. Ambassador shall have "full responsibility for the coordination of the transfer" to Panama of those functions under the treaty and related agreements. Authority over the regular operation, management and maintenance of the Canal is the province of the Panama Canal Commission.

A Consultative Committee established by the treaty also has a role in making recommendations to the two governments concerning, among other things, transition issues. The part-time U.S. representatives to this committee rely on the State Department for staff work and coordination.

REVERSION OF MILITARY PROPERTIES

Article XIII of the Panama Canal Treaty provides that, when the treaty expires, the U.S. will transfer to Panama "without charges ... all rights, title and interest" we may have "with respect to all real property, including non-removable improvements thereon" that were used by the Panama Canal Commission or U.S. military forces. In other words, to the extent that the U.S. holds title or use rights to properties covered by the treaty, these rights will automatically transfer to the Panamanian government upon termination of the treaty.

Article XIII also contemplates the transfer of property before the treaty expires, giving us a wide degree of discretion regarding the timing of reversion. We also have considerable leeway on whether to leave removable USG property on defense sites being reverted or to remove such property.

The Panama Canal Treaty and related agreements contemplate that the United States will take measures to remove hazards to human life, health, and safety, and contain a number of specific provisions on that issue.

U.S. MILITARY PRESENCE

The Panama Canal Treaty gives the U.S. the primary responsibility to protect and defend the Canal until the treaty expires in 1999. This includes the right to station, train and move military forces within Panama. In the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal, which carries no expiration date, the U.S. and Panama agreed to maintain the Canal's permanent neutrality. As reflected in amendments and understandings added during the ratification process, this has been agreed by both governments to include the right of the U.S. to act unilaterally to meet any threat to the Canal, including the use of military force in Panama. But the Treaty, even as amended, does not include any right to base troops in Panama after 1999, absent a further agreement.

Article V of the Neutrality Treaty states that, after the termination of the Canal Treaty, only Panama shall maintain military forces within its territory. However, the U.S. instrument of ratification of the Neutrality Treaty includes specific language confirming that the Treaty would not prevent the two countries from making arrangements or agreements, including for the stationing of military forces or maintenance of defense sites, to fulfill their responsibility of maintaining the Canal's neutrality after 1999. The Panamanian government, in the bilateral "Protocol of Exchange" of instruments of ratification, expressly "agreed upon" the condition. As such, there is no treaty impediment to a new agreement to make possible a post-2000 U.S. military presence in Panama.

U.S. law concerning the Canal includes a sense of the Congress resolution expressing the view that "the best interests of the United States require that the President enter into negotiations with the Republic of Panama for the purpose of arranging for the stationing of United States military forces, after the termination" of the Canal treaty. This language, which reflected the view of the Congress in 1979, did not impose a binding legal obligation on the Executive Branch to enter into base negotiations. We are of course, attentive to the views of Congress on this matter and are prepared to consult as such views evolve.

## THE SEPARATE ELEMENTS

### THE CANAL

The overriding interest of the United States in Panama is the maintenance of a free and democratic government, coupled with an open economy to help bring prosperity and well being to Panama. The strategic United States interest in Panama is the efficient and secure operation of the Canal itself. Although the development of alternative intermodal routes for some commodities has reduced the importance of the Canal in trans-U.S. commerce, the Canal is still highly important to Japan, Chile, Ecuador and Peru, in addition to the United States. It is through this waterway that 13.4 percent of U.S. international shipborne commerce flows. Four percent of world trade passes through the Panama Canal annually. Flagged vessels from 78 countries used the Canal for a total of more than 12,000 crossings in 1994. It is important to the increasingly rapid flow of global commerce that the Canal be operated efficiently and reliably.

In the sophisticated management of the Canal, the confidence of user governments and shipping lines is paramount. If users believe that tolls will be raised excessively, that maintenance will be deferred or that delays on transit will increase, they will begin shifting their transport patterns. This in turn would reduce traffic and revenues, threatening the viability of the Canal. The Panama Canal Commission, which currently operates the Canal, maintains solid and regular communications with shippers. The Panamanian government has shown itself aware of the necessity to provide demonstrable assurances to users of the Canal. One response has been to create a Panama Canal Transition Commission, consisting of Panamanian nominees for the Board of Directors of the Panama Canal, Panamanian members of the Panama Canal Consultative Committee and two top Panamanian experts on the Canal. The Commission has begun to plan for a smooth transition of the Canal

Another response is Panamanian government plans to organize and host a September 1997 Canal users' conference, with top levels of government and worldwide shipping in attendance. The idea is to acquaint Canal users in depth with Panamanian preparations to assume total management of the Canal. We believe this to be an excellent initiative and one which should bear positive results.

One of the first pieces of legislation passed by the new Panamanian Legislative Assembly last fall was a constitutional amendment setting the framework for an independent Panamanian Canal Authority. The amendment had been developed by the previous Endara Administration and passed by the previous legislature, but passage by two consecutive legislatures is required in the case of constitutional amendments. The Perez Balladares Administration threw its support to the amendment and engineered its passage. This continuity between two Panamanian administrations of opposing political parties reflects the broad consensus in Panama for responsible management of the Canal.

The constitutional amendment has positive features aimed at insulating the Canal organization from improper political influence and interference. However, it will be the details of the implementing legislation, and its subsequent interpretation and enforcement, which will determine the ultimate effectiveness of the new constitutional entity.

In the 1960's and 70's, the degree to which Panamanians were involved in operating the Canal became an issue. Now, however, it is indisputable that Panamanians are deeply and substantially involved in operating the Canal. Almost 90 percent of employees are Panamanian and over 40 percent of top management are of Panamanian nationality, including two of three section chiefs. The government of Panama now takes the position that continuity of management is more important than the nationality of Canal officials. We understand that consideration now is being given by the Panamanian government to make offers to senior Canal officials to stay on well after 1999, regardless of their citizenship, in the interest of retaining all experienced hands possible.

PROPERTY REVERSION

Between now and the end of 1999, the U.S. plans to return property comprising 77,000 acres and 4,272 buildings to the Government of Panama. Estimates of the value of land and improvements range upward from ten billion dollars. As Panamanians themselves have recently voiced in public debates concerning the process of property reversion, the optimum economic usage of these properties is essential to assure economic inputs as the U.S. economic presence is drawn down as the year 2000 approaches. U.S. bases inject $450-500 million dollars into the Panamanian economy and create some thousands of jobs.

The record of Panamanian usage of already reverted facilities has been mixed. For example, facilities recently transferred such as the Curundu Heights Bachelor Officers' Quarters and the Coco Solo Hospital are successfully used and well-maintained by the GOP. The Panama Railroad and parts of Fort Gulick, transferred in 1979, are in partial or total disuse. However, the railroad was never economically viable without heavy subsidies, even before its transfer, and the Panamanian Defense Forces maintained Fort Gulick adequately until they were abolished following Operation Just Cause.

We are encouraged by the attention currently being shown to the subject by the Panamanian government. Late last month, the Panamanian National Assembly passed an administration bill which revamped the structure of the Interoceanic Region Authority (ARI), intending to give the planning and execution of projects involving the reverted properties a new impulse.

Some Panamanians have expressed opposition to the legislatively-mandated changes, claiming that it means "politicization" of ARI. We prefer to wait to see how ARI moves ahead to deal with reverting properties, understanding that the Panamanian government envisages using privatization to the maximum extent possible. Experience has shown that grandiose government-managed projects often are expensive and cumbersome. All serious studies indicate that the only suitable disposition of the vast majority of the built-up areas is private development under applicable zoning, environmental and other regulations.

Canal users will be viewing Panamanian efforts to put reverted properties to productive use as they form their estimates of Panamanian competence to manage the Canal after 1999. Moreover, if the reverted areas are used in such a way as to increase growth, jobs and revenue to the government (perhaps with debt reduction as well), the temptation to use the Canal excessively as a source of income may be reduced.

For our part, U.S. officials will be working closely with Panamanians in a consultative relationship to plan and coordinate property return. This will be especially important on environmental aspects. It is of course up to Panama to decide how and for what purposes to use these properties. But we and the Panamanian people share a common interest in the sound use of the reverted areas. We believe this process of consultation will result in a smooth flow of returning properties and facilities in conditions which are environmentally sound and beneficial to the Panamanian economy, including the Canal.

CONSIDERATION OF A POST-2000 U.S. MILITARY PRESENCE

As I have already stated, U.S. policy is to comply fully with the Canal treaties. We are currently reviewing, not whether the treaties will receive full compliance, but how to structure our overall relationship with Panama so as to further our continuing interest in the Canal within the framework of the Treaties. Included in this review is the question of whether it would be in the U.S. interest to seek some form of post-2000 U.S. military presence in Panama. We are working closely with the Defense Department to address the issues involved.

We are looking at our Neutrality Treaty obligation to maintain the neutrality of the Canal and examining its implications. Together with DOD, we are reviewing the missions performed by the U.S. Southern Command in its area of responsibility and whether they require a forward presence in Panama. We are also looking at the implications in our relations with Panama and throughout the hemisphere of any possible decision to explore post-2000 basing with the Panamanian government.

The principal strategic interest in Panama, as I noted before, is the efficient and secure operation of the Panama Canal. Our responsibility to assure that the Canal remains open and secure to ships of all nations will not cease upon termination of the Panama Canal Treaty. As we are both obligated and allowed by the Neutrality Treaty to assure the Canal's protection, the question becomes whether a presence in Panama would significantly assist the U.S. in complying with this requirement. At the same time, we would need to consider what other U.S. objectives would be served by such a presence. Support for a strong counternarcotics role in the hemisphere could be one other such purpose. Training of U.S. troops is another, for example. An ideal jungle training facility exists at Fort Sherman, on the Atlantic side of the isthmus. There might be some advantage to Panama and other countries in the area to having U.S. forces available for search and rescue or other humanitarian missions as well. Consideration would also need to be given to the benefit of a forward military presence in the region.

As the USG looks at these possible benefits of a potential post-2000 U.S. military presence in Panama, countervailing considerations must be weighed as well. It would not do to spend large amounts of U.S. taxpayers money for expensive basing rights. That is something that the Department of Defense would have to weigh in the context of its overall program of base closings. Also, it would be important to judge whether such a presence would meet with major support from Panamanians in the future. Public opinion polls have been stable since 1991 in showing that about half the Panamanians think the U.S. should maintain about the same number of troops as now, while an additional 35 percent believe a presence should remain in "reduced" form. It may be the case, however, that the intensity of opinion is stronger among those opposed to a U.S. presence than among those who favor it. Opinion elsewhere in the hemisphere is at this point unknown but there might be broad acceptance of a U.S. military presence, particularly if Panama made clear that it wanted and accepted one.

RELATIONS WITH THE PANAMANIAN GOVERNMENT

The focus of this hearing is on the U.S. military presence in Panama, but there was some concern expressed late last year that a political party founded by Omar Torrijos and later used by Noriega had come to power in the new Panamanian government. Let me address that.

Our relationship with the government of President Ernesto Perez Balladares is quite positive. The Panamanians have been extremely helpful to us on foreign policy matters of importance. President Perez Balladares stepped forward twice last summer in the face of Panamanian public opposition to offer safehaven to Haitian migrants and to actually provide safehaven for Cuban migrants for a six month period. We are grateful for the support. The Panamanian government also accepted Haitian General Cedras for asylum in Panama at a crucial moment, contributing to the restoration of democracy in Haiti.

President Perez Balladares, while drawing some Revolutionary Democratic Party stalwarts into the government, has also reached beyond the party for top talent. His Foreign Minister Gabriel Lewis Galindo, his Planning and Economic Policy minister Guillermo Chapman, and his Attorney General Jose Antonio Sosa are examples of the broad base of political talent in the Panamanian administration.

On the economic and financial fronts, we see the Panamanian government moving to close a Brady deal on debt, negotiating constructively with its creditors. Panama is consulting on accession to World Trade Organization/GATT and lowering trade and tariff barriers in preparation for future trade negotiations. The USG is intensely interested in the rapid accession of Panama to the WTO/GATT and hopes that Panama will be able to continue with the type of economic adjustments that will position it for early full participation in the plan for trade expansion adopted at the Miami Summit of the Americas.

These moves to restructure the Panamanian economy are important for the U.S. for more than the usual good economic reasons. Panama, with 1.2 billion dollars in U.S. imports annually, is not a major export market for U.S. products, but there is an important relationship in our strategic interests between an economically healthy Panama and the Panama Canal. If, as Panamanian Planning Minister Chapman has pointed out, the economy is functioning well, it will provide a healthy economic environment within which the Canal can be administered. There will be less temptation for future governments to rely excessively on Canal revenues for the national budget -- risking loss of user confidence, traffic and ultimately the viability of the Canal itself.

An important element in our relations with the Panamanian government has been the fight against illegal narcotics and the proceeds derived from them. President Perez Balladares has moved quickly to set up an institutional framework within which money laundering can be detected and prosecuted. The Panamanian government is cooperating fully on the counternarcotics front with us and we look forward to positive results in the future.

RELATIONSHIP AMONG THE PANAMANIAN ELEMENTS

In conclusion, Mr. Chairman it is useful to view the elements of the future political, military and economic relationship with Panama as interrelated. The Canal requires an efficient and businesslike approach for its post-2000 operations, one which gives confidence to users and is insulated from political pressures or economic stress unrelated to the Canal business. The current Panamanian government is aware of these necessities and we are willing to work with them to create the structures and policies which will engender the confidence necessary to the continued viability of the Canal. The successful operation of the Canal will be more likely against a backdrop of a prospering Panamanian economy. The economy can be

helped by optimum use of reverted military properties. The economy can also be helped by the restructuring and modernization now underway in the context of WTO negotiations and Panamanian anticipation of early negotiations toward a hemispheric free trade agreement. It is also possible, as one option which might be considered, that a limited U.S. troop presence in Panama would instill confidence in Canal users.

We will be considering these elements in the weeks ahead, Mr. Chairman, and once we in the Executive Branch have reached some preliminary conclusions, we would welcome consultations with the Congress, including with your Subcommittee. We will of course be in touch with the Panamanian government to discuss the full panoply of issues with them at the appropriate time.

Thank you for the opportunity to present these issues to you. I look forward to responding to any questions you may have.

SEARACEN 8436

**Statement by**
**Frederick C. Smith**
**Principal Deputy Assistant Secretary of Defense**
**International Security Affairs**

Mr. Chairman, members of the Subcommittee, it is a pleasure to testify before your committee this afternoon to discuss U.S. interests in Panama and considerations for U.S. security involvement in Panama after the year 1999. Accompanying me from the Joint Staff is Brigadier General John R. Walsh, Assistant Deputy Director for Politico-Military Affairs. The Department of Defense is in full agreement with our colleague from the Department of State, Deputy Assistant Secretary Anne Patterson. We wish to associate ourselves fully with her statement.

In my statement I would like to discuss briefly (1) the enduring U.S. interests in Latin America and our defense policy for protecting those interests; (2) the mission of the U.S. Southern Command and our current force structure in the region; (3) implementation of the 1977 Panama Canal Treaties and related legislation; and (4) considerations for a post-1999 U.S. military presence in the region.

**Regional Interests and U.S. Defense Policy**

The United States has important political, economic, and socio-cultural interests in Latin America, many of which affect U.S. national security. While more serious strategic threats to U.S. national security abound in other regions, Latin America does not present any imminent strategic threat. After World War II, U.S. policy in the region was a constant of the Cold War in which local events were viewed geostrategically and often led to strained relationships with Latin American nations. The end of the Cold War has allowed us an opportunity to change our attitude and approach commensurate with the geographic and economic importance of the region.

Today, our security interests in Latin America focus on helping to promote democracy, taking measures to increase economic growth and stability, and combating the flow of drugs from the region to the United States. These interests derive from the region's proximity, its high standing as a trading partner, a shared commitment to democracy, the importance of the Panama Canal, and the cultural and family ties of Hispanic-Americans. Whenever possible, our strategy to pursue these interests looks to cooperative arrangements such as the North American Free Trade Agreement, the Summit of the Americas, the Organization of American States, and other multinational endeavors.

While Latin America is relatively free of armed conflict, tensions based on historical animosities remain. Contested borders, disputes over maritime boundaries, and refugee migration have the potential to spark regional conflicts. The current border conflict between Peru and Ecuador is an example of how situations can threaten regional stability. Cooperative engagement involving the U.S., international organizations, and Latin American nations should continue to pursue the goal of a definitive resolution of these long-standing issues.

The opening of the next century is likely to witness a more stable and dynamic Latin America where conflict resolution has been shifted to cooperative venues. Thus, Defense's role will be to remain engaged in bilateral and multilateral military-to-military and civil-military programs that build confidence and enhance cooperative regional security.

**U.S. Southern Command and Current Force Presence**

Much of the U.S. defense policy regarding the region is implemented by the U.S. Southern Command with its headquarters in Panama. The Command's primary mission is to protect U.S. interests in the region. It accomplishes this mission by:

- maintaining command, control, communications, and intelligence ($C^3I$) to provide strategic and operational direction to U.S. forces operating in the theater;
- defending the Panama Canal and the area around the Canal;
- supporting counterdrug efforts;
- strengthening professional military-to-military relationships with regional armed forces to develop cooperative military postures and doctrine;
- promoting peace and stability to enhance democratic development and economic growth; and
- maintaining a high quality of life for U.S. forces and their families throughout the area of operations.

The Service components assigned to U.S. Southern Command are U.S. Army South, Ft Clayton, Panama; U.S. Atlantic Fleet, Norfolk VA (for planning purposes); U.S. Southern Air Force, Davis-Monthan Air Force Base, AZ; Special Operations Command, Albrook Air Force Station, Panama; and Marine Forces Atlantic, Camp Lejeune NC (for planning purposes).

Current U.S. military strength stationed in Panama is approximately 8,800 personnel. This includes personnel from the Army, Navy, Air Force, Marines, and Special Operations components and the USSOUTHCOM headquarters staff. They occupy 10 major defense sites and various isolated facilities totaling 77,000 acres. The current USSOUTHCOM drawdown plan calls for 5,650 military personnel on five major defense sites totaling 69,650 acres by the end of Fiscal Year 1998.

The U.S. Atlantic Command (USACOM) maintains a regional presence contiguous to USSOUTHCOM's area of responsibility. USACOM has command of nearly all U.S.-based forces to use in fulfilling tasks in the hemisphere; these forces together with those under the command of USSOUTHCOM are capable of responding to any threat in the region.

**Treaty Implementation**

The Department of Defense is complying with the terms of the Panama Canal and Neutrality Treaties by transferring Defense facilities and withdrawing U.S. forces. Transition activities are proceeding under the Panama Canal Treaty Implementation Plan, signed by the Secretary of Defense in 1992. This phased withdrawal allows for defense of the Canal, continued support for counter-narcotics programs, use of training facilities for U.S. forces, emergency evacuation, if necessary, of U.S. citizens from the region, and humanitarian and disaster relief assistance.

The issues of timing and costs of the withdrawal plan are reviewed on an annual basis, at which time the Commander in Chief of the U.S. Southern Command adjusts the plan and tasks the Service components to develop or modify supporting plans. The result is a treaty implementation plan that fulfills treaty obligations while continuing to carry out the U.S. Southern Command missions.

Our ability to carry out these missions will not cease upon the termination of the treaty. In particular, under the Protocol to the

Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal, which carries no expiration date, the United States will retain the right and responsibility to act against threats to the Canal.

**Post-1999 Presence Considerations**

Secretary Perry has stated that while the United States will fully implement the terms of the Treaties, we are willing to discuss the possibility of maintaining a U.S. military force presence in Panama after 1999 if the Panamanian government believes, too, that it is in its best interest. Indeed, there are indications in the negotiating history of the Treaties for assessing the needs for a possible presence.

In the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal, the U.S. and Panama agreed to maintain the Canal's permanent neutrality. Primarily due to reservations and understandings added by the U.S. Senate, both governments agreed that the U.S. has the right to act unilaterally to meet any threat to the Canal, including by use of U.S. military force in Panama. These reservations and understandings, however, do not include the right to base troops there after 1999 absent a further agreement.

Article V of the Neutrality Treaty states that after the termination of the Canal Treaty, only Panama shall maintain military forces within its territory. The U.S. instrument of ratification of the Neutrality Treaty, however, includes specific language adopted by Congress to confirm that the Treaty would not prevent the two countries from making arrangements or agreements, including for the stationing of military forces or maintenance of defense sites, to fulfill their responsibility of maintaining the Canal's neutrality after December 31, 1999. The Government of Panama, in the bilateral "Protocol of Exchange" of instruments of ratification expressly agreed to this understanding. As such, there is no treaty impediment to a mutually agreed post-1999 U.S. military presence in Panama.

Moreover, Section 1111 of the Panama Canal Act of 1979 includes a sense of Congress resolution declaring the "best interests of the United States require that the President enter into negotiations with the Republic of Panama for the purpose of arranging for the

stationing of United States military forces, after the termination of the Panama Canal Treaty of 1977...."

Given this background, an Interagency Working Group is conducting a thorough review of the requirements for possible post-1999 U.S. military presence in Panama.

The review includes requirements for maintaining a capable presence in the region, continuing to provide security of the Canal, commanding and controlling forces deployed to the region, supporting counternarcotics operations, ensuring adequate training facilities for U.S. forces, and staging for contingencies, search and rescue, humanitarian assistance, civic action, disaster relief, and exercises. These requirements, of course, must be balanced with U.S. global interests, our overall military force and basing structure in the post-1999 era, and limited fiscal resources.

I want to emphasize that the review will include looking at three areas of major concern:

- Defense of the Canal will remain a high regional priority. USSOUTHCOM could defend the Panama Canal against external threats with forces based in the United States. As stated in the Treaties, the Canal will remain neutral and the United States retains the right to use force in Panama to reopen the Canal or restore the operations of the Canal.

- The uninterrupted counterdrug support to U.S. and foreign law enforcement agencies is, and will remain, of major importance. Panama is located in the center of a major drug transit area and Howard Air Force Base provides secure staging for detection, monitoring, and intelligence collecting assets. The primary impact of not having a base in Panama will be on our ability to stage aircraft for counterdrug operations. Arrangements will have to be made so that operations are not hindered.

- Panama provides unique opportunities and facilities for training, such as the Jungle Operations Training Center and the Navy Small Craft Instruction and Technical Training School. When these sites in Panama are no longer available, they will be difficult to replicate elsewhere.

We will be challenged to accomplish the mission in a changing geopolitical environment. I, for one, am comforted by the words of

the Commander in Chief of the U.S. Southern Command who said in recent testimony, "...we have no vital military or economic interest directly at stake in Panama which we cannot support through some other strategy."

**Conclusion**

We should be optimistic about the future of U.S. regional security interests in Latin America. There are no immediate threats to vital U.S. security interests emanating from Latin America. Nevertheless, the area will require constant engagement because of the costs of the narcotics trade, mass migrations of refugees, likelihood of change in Cuba, persistence of low level insurgencies, and importance of unobstructed maritime transit rights, including via the Panama Canal.

The situation in Panama in the coming years will present challenges and opportunities. The Department of Defense will comply with the terms of the Panama Canal Treaties. At the same time, our regional interests will grow and our military forces will remain engaged.

**Testimony Before the Subcommittee on Western Hemisphere, House International Relations Committee**

**March 9, 1995**
**by**

**John A. Cope, Colonel, USA Ret.**

**Senior Fellow, Institute for National Strategic Studies, The National Defense University**

Thank you for the opportunity to share with you this afternoon some thoughts based in part on a chapter in a report issued recently by the Institute for National Strategic Studies, entitled **Strategic Assessment 1995**. Permit me to emphasize that my remarks, like the report, are the product of independent university research, and do not necessarily represent the position of the Department of Defense or the U.S. Government. I am not here as a government witness.

**Will U.S. Military Presence in Panama End -- The State of Play**

Unless there is a change in current policy, the U.S. will honor the 1977 Panama Canal treaties and completely withdraw all U.S. military forces from the country by noon on December 31, 1999, or perhaps even before that date. A protocol in the Treaty Concerning the Permanent Neutrality and Operation of the Panama Canal, however, does allow negotiation for the stationing of military forces or the maintenance of defense sites to fulfill the responsibility of maintaining the canal's neutrality after December 31, 1999 if both countries express an interest.

To date, there has been little serious discussion in the United States about whether complete implementation of the treaties is a sound strategic step, supporting Washington's Latin American policy as it is envisioned at the millennium. The Defense Department already has begun executing its plans to draw down forces over the next five years and return property to the Panamanian government. Secretary Perry did suggest in June 1994 that the presence of a smaller military force beyond 2000 is possible if Panama initiates the dialogue. Foreign Minister Lewis Galindo later acknowledged Panamanian interest but encouraged the United States to take the lead.

On the U.S. side, this is issue that cannot be deferred much longer. Units are being deactivated, or will be upon departure from Panama, as a part of the overall downsizing of the armed forces. Budgetary decision-windows affecting construction and relocation are closing. Washington must decide soon if U.S. foreign and security interests require retaining a smaller military presence forward deployed in Panama. If all forces are withdrawn by the end of 1999, there is little likelihood that U.S. military units will again be stationed there.

On the Panamanian side, this also is an issue that cannot be deferred much longer. The government is under growing pressure to develop a marketing plan which maximizes the economic use of reverting properties. Several of the installations in which the United States might have an interest in retaining are precisely the properties most suited to commercial development. It is unfair to Panama and destabilizing to their planning efforts to be coy about our intentions.

**Differing Viewpoints**

There are at least three different perspectives on the issue of continued military presence in Panama. Some see total implementation of the Canal Treaties as an irreversible mandate for the U.S. to leave Panama. The psychological safety net of U.S. forces stationed across the isthmus must disappear if Panamanians are ever going to face their destiny, make the difficult domestic choices, and move as a true sovereign state into the next century. There is no turning back. Panama's protectorate status must end. Others see implementation through the early twentieth century eyes of such visionaries as Alfred Thayer Mahan and Theodore Roosevelt. The canal is not simply a prime commercial crossroad but a vital strategic highway that the United States must always control. It is the link that binds the Atlantic and Gulf coasts of the United States with its Pacific frontier.

I represent a third viewpoint that does not want military presence in Panama to simply disappear by default, a victim of the implementation plan's momentum, without objectively and dispassionately considering whether terminating U.S. military presence at the end of the century makes strategic sense. To date, this issue has attracted little academic or public policy interest, only an occasional newspaper article on the state of treaty implementation. Within the U.S. government, until very recently, there has been little discussion about what we are trying to achieve by the end of 1999 except compliance with the treaties. There has been little discussion of the chances of retaining some facilities and no consideration of the politics of such a plan. Hopefully, the timing of your hearing will trigger the needed debate before it is too late.

My hope this afternoon is to provide a perspective on what I see as the key question: is it in the interest of the United States to retain a military capability of some dimension stationed in Panama into the 21st Century, notwithstanding the fact that political and financial considerations may ultimately dictate the decision? In addressing the security dimension, I want to accomplish three things: first, take a practical look at our security interests as they may exist at the millennium; second, clear away three myths which have grown up over time to

distract decision making; and finally, address several strategic security considerations which should affect the decision.

**The Setting**

Since 1986, when U.S. Southern Command developed the first strategic concept for implementing the Treaty, this has been a hard topic to discuss openly within the Defense Department, then in the interagency arena, and now in public. Consequently, the foreign and security policy logic of the late 1980's and early 1990's still dominates. Security environments and perspectives do change, and national security concepts must be flexible and dynamic. The history of the Panama Canal underscores this the point. Prior to the Second World War, the U.S. believed that we had to have exclusive control of the Canal in order to protect it from rival powers and guarantee a smooth operating environment in Panama. By the 1970's, our sovereign-like control, a rallying point for pent-up Panamanian nationalism, had itself become a serious threat to the canal. The United States reluctantly but, in my view, correctly responded with treaty negotiations. In the near term, this step recognized Panamanian sovereignty over the Canal Zone and sustained the canal's stable environment. In the long term, responding to political and strategic concerns in the U.S., the Treaty delayed full implementation for 23 years.

No one in 1977 could have foreseen today's drastically altered positive hemispheric security conditions. A region wide consensus on the validity of democratic political systems and free market economic models has created new common ground between the United States and Latin America, as well as shared approaches to problems of equal concern to both. In this setting, Panama's control of the canal is assured, and our traditional interest in a stable Panama remains unchanged. With these constants, as we approach another turning point in U.S.-Panama relations, how should we read the foreign and security policy tea leaves spread out on the table before us? Of particular interest now is the trend in Panamanian public opinion over the last three years toward increasingly favorable support for continuing beyond 1999 the previously disliked U.S. military presence.

**Potential Security Interests in 2000**

The first step in predicting the interests and behavior of the United States at 2000 is to review the past. Carlos Rangel once noted, "However Washington reacts to a Latin American crisis, its position will be a factor in determining the future course of events, even if it decided to stay strictly neutral." The history of our relationship with the region, as well as geography, shapes destiny. Historically, U.S. policy, particularly on security issues, has stopped in northern South America. Exceptions do occur such as our anti-narcotics policy that focuses on drug production and trafficking in several Andean

nations. At the turn of the century, as in the past, situations in the Caribbean Basin, including Panama, will tend to command the public's attention and delimit the scope of Washington's interest in the hemisphere. There is no neutrality, no disinterested behavior for us in this part of the region.

The United States has traditionally seen its security tied to stability. This is not expected to change. However, the way we define our interests at the millennium already is different. Since the end of the Second World War, the U.S. has stressed the following six strategic concerns:

-- Protecting access to and transit across the region, including unrestricted use of the Panama Canal;

-- Preventing hostile powers from gaining a position of strength in the hemisphere;

-- Maintaining a small military presence at several bases in the region (Guantanamo, Cuba; Roosevelt Roads, Puerto Rico; former Panama Canal Zone; and Soto Cano, Honduras);

-- Preserving the ability to obtain essential raw materials, particularly bauxite and petroleum;

-- Protecting U.S. government and commercial investments;

-- Getting hemispheric solidarity for U.S. positions in international fora.

Washington never saw the need to commit any relatively large amount of national treasure to achieve these interests during the Cold War. Now their strategic significance has declined as it has become apparent that there are no credible military threats to U.S. domestic security within the inter-American region. America's Mediterranean today, and at 2000, is important for a different set of reasons, which are not as starkly drawn as the earlier era's list. The new agenda includes:

***Encouraging Democracy.*** Our goal is to preserve the dominance of civilian elected governments and promote their evolution into functioning democratic societies committed to free markets and respect for human rights, targeting states that affect our strategic interests such as those with large economies, critical locations, or the potential to generate refugee flows into other countries. Panama continues to be the most critical location in the hemisphere.

***Expanding Access to Regional Markets.*** Countries across the hemisphere have become the fastest growing market for U.S. commerce and investment, as well as remain a key source of

raw materials, at a time when this is essential for a healthy U.S. economy. Extra-hemispheric economic competitors, such as Japan and the European Union, also are moving to exploit the region's economic potential, encouraged by this indication of a potential official retrenchment from the area.

***Responding to the Criminal Drug Trade.*** For countries in the Caribbean Basin and Andean Region, drug-trafficking organizations are extremely capable strategic adversaries that can mass overwhelming non-traditional means to challenge the legitimacy of democratic governments. The United States will remain committed to a long-term effort involving substantial resources and enormous energy by several of its agencies to reduce the amount of cocaine being illegally smuggled into this country and to assist regional governments to defend themselves. U.S. policy will continue to emphasize efforts in four areas: destroying the narco-trafficking organizations; assisting institutions in nations that show the potential will to combat narco-trafficking; increasing international cooperation; and interdicting the flow of drugs in both the source and transit countries. U.S. military support for counterdrug efforts in the Andean region and Caribbean Basin is more efficient, more responsive and less expensive from a centrally-located base within this area.

While not yet on the main agenda, the possibilities of confrontation over issues of economic sovereignty and interstate conflict stemming from historic boundary disputes are real. Three areas of growing friction include the projection of unsanctioned offshore claims out to 200 nautical miles, the enforcement of international regulations governing fisheries, and heightened border tension resulting from population growth and increased migration to neighboring states. A visible U.S. presence in the region has a restraining influence to a point and has made a positive contribution to diplomatic efforts to end conflicts if they begin. DoD's low-key efforts in support of the peace process ending the Peru-Ecuador confrontation is timely example.

**Clearing Away Some Myths**

In the course of a close, often patronizing, and at times resentful relationship spanning almost 100 years a fair number of myths have gained acceptance. Those addressed here obscure realities which are important to decision making.

1. ***Military Force Can Defend A Canal.***

The true measure of success in defending a canal is the willingness of commercial shipping companies to continue using it

while protected. Their confidence in a "safe passage" is based on a unpredictable blend of facts (what they see) and perceptions (rumors and their inherent fears). To the military eye, the Panama Canal is a stationary target 50 miles long. It has three sets of locks and roughly 100 other installations and dams of varying degrees of criticality. All of these sites can be physically protected against surface and air attack. Since the end of World War II, there has never been sufficient force stationed in the Canal Zone to accomplish this task without a major augmentation from the United States. In the late-1980's, the size was estimated at two divisions with a significant logistical support package. However, even with the canal completely defended, the problem of underwater mines in the canal or along the approaches to it, or the strong perception that this threat exits, can stop commercial traffic. Modern submersible mines, possibly dropped from a transiting cargo ship, present a serious problem in this canal because they are difficult to find against a canal bottom that is littered with discarded construction equipment. The United States has always been able to meet its obligation to defend the canal and will continue to do so, but what "defend" means must be kept in context.

A second danger to the canal against which the U.S. once decided not to defend is a guerrilla threat stemming from intense Panamanian nationalism. In the 1970's, we chose the alternative, negotiating the canal's future with General Torrijos, recognizing the key to defending it resides in Panama's domestic environment. The best safeguard, ensuring the canal's neutrality, is a stable, progressive country with a responsible national government, a country where there is no incentive to take or support action against the international waterway. The United States can not achieve this goal; we can only work with the elected Panamanian officials to create the conditions conducive for this end. Democracy and prosperity not military force guarantees a secure canal.

I think that it is helpful to remember that our most recent intrusion into Panamanian affairs had nothing to do with defending the Canal. Rather it stemmed from an absence of democracy, leading to the United States becoming frustrated with a national leader's involvement with drug and weapons smuggling; appalled by the beatings of opposition political leaders by Noreiga's thugs; and angered by the treatment of U.S. citizens which he sanctioned.

2. ***Military Engagement In Panama Stunts Governance.***

This issue, which is not unique to Panama and would exist even if there were no U.S. forces stationed in Panama, usually unfolds in two ways. The first theme explains that U.S. military goodwill provided through numerous humanitarian and civic actions (HCA) programs reinforces an ingrained dependence on the U.S.,

giving the Panamanian government an excuse not to take action itself to address serious infrastructure and institutional problems. The second theme suggests that the presence of U.S. military personnel on HCA deployments from the United States keeps the legacy of the Panamanian Defense Force's (PDF) pre-eminence alive by interacting with and benefiting underprivileged civilian sectors.

The mythical dimension of this issue is in perpetuating the idea that only one form of U.S. engagement, the military's HCA programs, affects governance when in fact integrating all forms of U.S. assistance into the host government's efforts is often very difficult and frustrating for both parties. The A.I.D. mission, for example, advocates initiatives designed to match the needs of the host country with the capacities of its parent organization and the policy direction from Washington. Its multi-million dollar efforts to bolster government institutions, such as the police force and the prison system, present Panamanian agencies with no less of an excuse not to manage properly. This is not a new situation for any country with manifest problems and insufficient resources.

The answer lies not with stopping military HCA programs but in the embassy's ability to get different departments of government to use the various forms of U.S. assistance creatively, accomplishing the country's objectives as well as the country team's. An HCA program, for example, offers an excellent opportunity to encourage mid-range planning and budgeting -- U.S. military planning begins at least a year out and is less subject to last minute changes in funding levels. The HCA program can facilitate coordination among different departments and stimulate a well thought-out public information campaign to counter latent popular militarism with positive, visible government-sponsored initiatives. If used correctly and innovatively, military presence can strengthen governance.

3. ***Panama Canal Issues Are Bilateral.***

Only fourteen percent of U.S. seaborne trade goes through the Canal. Japan, Taiwan, Chile, Ecuador, Peru and numerous other states rely more heavily on this commercial crossroad than the United States, have an interest in the implementation of the Treaty, and want to be assured about its future. The international shipping industry also has a major interest in the future of the canal. In a strategic military sense, other regions of the world are dependent on the canal being open for the rapid movement of naval vessels and cargo ships from one part of the world to another in response to crises or in support of peacekeeping missions.

**Long-Term Security Policy Considerations**

Over roughly the next five years, the biggest event in Panama will be the fulfillment of General Torrijos' dream -- the reversion of all U.S. property and the departure of U.S. military forces. The Government of Panama, embarrassed by the dismal results of earlier reversions, has a vested interest in doing a good job managing a complex operation, for which neither side has much formal training. Fears in the U.S. about Panama confronting its responsibilities and the effect of an alleged ingrained dependency on the United States will quickly slide into history. It is now becoming increasingly evident to all that the "gringos" are actually leaving. As the momentum of this physical and psychological process builds, I believe that it is important for the two governments to discuss the possibility of a base rights agreement for a small DoD presence to remain in the Howard AFB-Rodman NS-Fort Kobbe complex. While both sides must see value in such an agreement, my interest here is in presenting several long-term security considerations which should be of interest to the U.S. Government.

1. ***The Sound Logic of Overseas Presence Still Applies***

Overseas presence is a fundamental strategic concept that has long underpinned our national security and national military strategies. The logic that has made this an important consideration up to today still applies. Even a small forward-stationed force can offer a range of benefits. It underwrites regional and Panamanian stability -- our first concern -- in a very unique and personal way; signals U.S. commitment to cooperative security among hemispheric friends, particularly in the Caribbean Basin; provides a visible reminder to those who would threaten our interests; plays an active role in peacetime policy support; and provides timely initial response capabilities in the event of a natural disaster or the need to support diplomacy (eg., an interim aviation package for the Peru-Ecuador observer mission until the civilian contractor is ready). As the size and frequency of military deployments for training have decreased in recent years, it is unrealistic to hold this form of overseas presence is a viable alternative to a base. The traditional negative colonialist-imperialist image associated with a military presence in Panama has faded significantly in 1995. This should not present a serious criticism of retaining a small U.S. presence if a base rights agreement is negotiated carefully and properly between the two governments.

2. ***Keeping a Central Position in Counter-Drug Operations***

Panama provides an excellent geographical location close to the source countries and astride principal transit routes north, which has greatly enabled the Defense Department to assist other U.S. agencies and Latin American governments, through U.S.

Southern Command, with cost-effective and responsive support. This central position has allowed the Unified Command to play a regionally-focused operational role with credibility and influence. The requirement to move USSOUTHCOM's Counterdrug Operations and Air Operations centers to the United States will increase flight distance and flying time to the Andean countries by a factor of roughly 2,000 miles and 8 hours per sortie. Clearly, this will entail enormous cost increases as the number of aircraft surveillance sorties and flying hours jump to try to maintain today's area coverage. A cost-saving cutback here, in addition to the withdrawal from Panama probably will be perceived within the U.S. government and by Latin American friends and adversaries alike as a retreat in DoD's commitment. I also believe that there will be a partial collapse of the U.S. counterdrup strategy for the hemisphere when this strong, energetic regional leader and facilitator is removed physically from the area.

The absence of a geographically well-positioned base in Panama will also complicate USSOUTHCOM's ability to execute any type of disaster relief and humanitarian missions in the region. All support will have to deploy from the United States.

3. ***Keeping the Strategic Symbolism of Presence in Panama***

A small U.S. presence remaining in Panama sends a symbolic message to a range of different audiences. As U.S. forces in Europe continue to demonstrate a strong psychological as well as physical commitment to that area of significant national interest, a comparable stationing of forces in Panama makes a similar low-key statement to the inter-American community of nations, particularly those beyond the Caribbean Basin that are so hard to see from the United States. It is important that the Defense Department remain visible in a region where the military institution's role in democracy remains a serious issue. It is important that DoD be seen as wanting to remain effective in its regional activities and seeking to better understand the region, its culture and language.

Panama's importance as a commercial crossroads not only underscores our duty to help safeguard the neutrality of the canal for all international users, bolstering the confidence of the global shipping industry, but also sends an implicit message to foreign economic competitors confirming the U.S. stake in a future free trade zone across all American territory by 2005. Panama is important for other reasons as well. The United States cannot negate its past: a special relationship between our two countries has evolved over the century. A small presence, to acknowledge this, avoids the perception that the U.S. is still a crutch, for there will be insufficient capability, and for the same reason limits any domestic involvement. A base rights agreement negotiated with due respect for Panamanian sovereignty,

economic priorities and political concerns sets the correct tone for our relationship in the 21st Century.

**In Conclusion**

Today, the presence of U.S. Southern Command in Panama affords timely access, cost-efficient operations in Central and South America, and focused regional expertise. The most important facilities include the C-5 capable, 24-hour-a-day operational airfield at Howard Air Force Base, crucial for U.S. and allied counterdrug efforts, and a small deep-water port and logistical base at Rodman Naval Station for the support of high-value transits of the canal. The negotiators who developed the Panama Canal Treaties, one of whom is now the Panamanian Foreign Minister, recognized in the late 1970's that both sides might in the future want to discuss again U.S. use of these facilities. The time has come to take this step, and it is still in the strategic interest of the United States to do so.

PREPARED STATEMENT OF DR. RICHARD L. MILLETT
SENIOR RESEARCH ASSOCIATE, NORTH-SOUTH CENTER, U. OF MIAMI
PRESENTED BEFORE THE SUBCOMMITTEE ON WESTERN HEMISPHERE
OF THE HOUSE COMMITTEE ON INTERNATIONAL RELATIONS
MARCH 9, 1995

Analyzing the strategic importance of Panama and the future of United States military bases in that nation is a task both long overdue and sure to generate controversy both here and in Panama. In over twenty years of studying these issues I have found no consensus on the facts of the situation, much less on the desirable parameters of possible U.S.-Panamanian security arrangements. As the date for transference of the Canal to Panamanian control approaches debates over this issue are likely to grow more heated. In this context Panamanian reality can all too easily be replaced by simple stereotypes and projected prejudices. Hopefully, this hearing will curb this tendency and help us to focus on the long range substance of the U.S.-Panamanian relationship.

The Strategic Importance of Panama.

Panama is clearly an area of some strategic importance to the United States. While our interests there on not on the order of those in Mexico, in Saudi Arabia, or in the major NATO member nations, they are considerably more important than those of the average smaller nation in this hemisphere. Key to these interests, of course, is the Panama Canal. But Panama is much more than simply an appendage to the Canal and our interests in that nation must not be confined to this single factor. Panama is a major regional financial center, a communications center, and has a strategic and vulnerable border with Colombia. The value of U.S. investments in Panama exceeds the total value of our investments in the rest of Central America. Finally, Panama has provided a useful base for some of our counter-narcotics operations in this hemisphere.

While its relative importance has declined in recent years, the Canal still has considerable

economic and strategic importance for the United States. Fourteen percent of U.S. seaborne commerce passes through it. For most Pacific Coast nations of South America the figures are much higher, exceeding fifty percent in the case of Ecuador. Passage through the canal is still important for the U.S. Navy, although the fact that modern carriers can not pass through the locks and ballistic missile submarines do not want to spend the amount of time on the surface necessary for the transit reduces this value significantly.

Threats to the Security of Panama and the Canal

Contemporary threats to Panama and to the future of the Canal come from many sources and assume a wide variety of forms. Today conventional attacks by foreign nations, against which the Canal's defenses were designed, are highly unlikely. As Col. Max Manwaring (USA-ret,) has noted "with the end of the Cold War, conventional military attack against the Panama Canal became an anachronism."

Possible threats from within Panama are of greater concern. These would include both international terrorist attacks and civil conflicts among Panamanians themselves. Here too the threat has diminished in recent years, but future problems in these areas can not be totally discounted.

Perhaps the greatest threats to the future of the Canal come from the continuing deterioration of the environment in surrounding areas. The river basins which provide the water for Canal operations have been extensively deforested over the past four decades. While the process has been significantly slowed it has not been halted, much less reversed. Sedimentation continues to build up in the principal lakes and the costs of dredging continue to rise, all of which undermines the economic viability of the Canal. Unless this threat is countered al he effort

and expense of preparing to meet more conventional menaces may simply be wasted.

Finally, there is the menace of international criminal operations operating in or through Panama. While these do not directly threaten Canal operations they do present a major danger to the credibility and viability of the Panamanian state and are a constant issue in U.S.-Panamanian relations. While narcotics trafficking is the most publicized of these activities it is by no means the only threat. International criminal organizations from the Americas, Europe and Asia are increasingly active throughout the region. Money laundering, arms trafficking, document falsification, auto theft, illegal immigration (at times related to narcotics and/or prostitution), extortion, and increasing penetration of legal trade activities all attract their attention. A major commercial and financial center, a transportation hub, and a busy port, Panama attracts all these activities. Their presence, in turn, provides a continuing source of corruption within Panama. Panama's situation is far from unique and is not the product of a lack of governmental effort or will. It is, sadly, a reflection of our times in which the power and resources of international criminality dwarf those available to smaller states.

Responding to the Threats

Cataloging menaces is a much easier task than formulating effective counter measures. There are no quick fixes, no simple solutions to the multitude of security issues which will confront Panama and the Canal for the rest of this century and beyond. Conventional military menaces, should they arise, can best be dealt with by air and naval forces based outside of Panama. To again quote Col. Manwaring "at the tactical and operational levels Panamanian defense does not warrant the commitment of specified conventional forces."

Dealing with threats which might arise within Panama is best handled by the Panamanians,

themselves. And here the best defense is a democratic Panama with an effective and popular government and a prospering economy, something which no other nation can create. Panama has made significant progress in this area recently. The 1994 elections were the freest and most honest in that nation's history. The new administration of President Ernesto Perez Balladares has reached out to include a broad segment of the Panamanian body politic and is pursuing policies designed to incorporate the nation into the world trade framework and to modernize the economy in preparation for assuming control of the Canal. He has given high priority to maintaining close relations with the United States, as exemplified by last year's agreement to permit the U.S. to provide temporary quarters for Cuban refugees.

There are many ways the United States can assist the development of Panama's democracy and contribute to the development of its economy. Promoting education, providing police training, assistance in judicial reform, responsiveness to Panamanian trade concerns, promotion of joint projects involving the reverted areas which Panama will receive from the U.S. military would all be useful. It must be noted that the prolonged delay in confirming a new Ambassador has made such projects much more difficult and has been perceived by many Panamanians as symbolic of a lack of serious interest in the future of their nation.

Similar judgements apply to defending the ecological basis of the Canal. Panama needs international support in its efforts to preserve the watershed and deal with the problems caused by ecological degradation. Much of this may be provided through the multilateral financial institutions. Military force has little if any role to play in this area. The last thing Panamanians or U.S. military officials want to see are American troops using force to curb the activities of poor Panamanians in the watershed areas. Panama's capacity to police such activities needs to

improve, but more importantly the nation needs to provide employment alternatives for those who might otherwise try to carve out a living from the remaining rainforest areas.

Dealing with international criminality presents the greatest challenge. Paradoxically, the move towards freer trade and a more democratic political system has made this issue even more difficult. As Douglas Payne of Freedom House recently wrote, the optimum conditions for the drug trade are "weak rule of law and low trade barriers." We have a real interest in helping Panama improve its administration of justice, modernize its police, and utilize intelligence information to provide some control over those who pass through its territory. But here, also, thee seems little direct role for the U.s. military. Policing must be an essentially civilian operation, carried out by Panamanians in cooperation with the international community.

The Future of U.S. Military Bases.

No discussion of security issues involving Panama can omit an examination of the future of the U.S. military presence in that nation. As matters currently stand that presence will be gradually phased out over the next fifty-six months. In the process Panama will acquire title to a vast array of buildings and other assorted facilities. Maintaining and utilizing these areas poses a major problem for the Perez Balladares administration. So, too, does making up the jobs and income which will be lost when U.S. forces withdraw. Under such circumstances it is hardly surprising that polls consistently show a strong majority of Panamanians favoring the retention of U.S. military bases beyond the year 2000.

The possible renegotiation of the rights in Panama offers both advantages and problems for the United States. Retaining a presence at Howard AFB, at the Jungle Warfare School at Fort Sherman and at the Naval Station at Rodman would facilitate operations in Latin America and

the Caribbean. The facilities available at Sherman would be especially hard to duplicate elsewhere. Howard has been of value in drug interdiction efforts and in supplying operations in South and Central America. In addition, a continued U.S. presence in Panama provides a degree of security for that nation and its leaders and may even make Panama more attractive to potential investors.

The negatives are also very real. U.S. bases in other nations are always a source of potential problems, both legal and political. Panama has a long history of both looking to the United States to resolve its problems and of blaming Washington for much of what goes wrong. Continued presence of the bases will exacerbate this and will reduce the chances that Panama will take full responsibility for its own security. U.S. bases would make Panama and the Canal a more rather than less attractive target for potential terrorists and could also serve as a focus for domestic political divisions and conflicts. If a U.S. military presence exists in Panama the temptation to become involved in that nation's internal affairs (and the tendency of some to seek such involvement) will be magnified. Finally, any perpetuation of the American military presence will provide ammunition for critics throughout the world who charged that the real purpose of Operation Just Cause was to keep the bases.

Bases in Panama may be convenient, but they are not vital to our post-Cold War defense posture. Here the case of American bases in the Philippines may prove illustrative. For decades we assumed that Clark AFB and Subic Bay were the key to our forward presence in Asia. But one volcanic eruption, combined with an obdurate Philippine Senate and we quickly learned just how easily we could do without such bases. None of the dire predictions about what would happen to our ability to maintain presence and influence in Asia should we give up these bases

have proved true. Panama's strategic importance is even less and facilities available in Puerto Rico and elsewhere can take support most of the missions currently operating out of Panama.

On balance, I believe the risks and costs of maintaining our bases in Panama outweigh the advantages to the United States. There is, however, one additional factor which might be considered. Panama's ability to absorb and effectively utilize the reverted areas is increasingly questionable. No real groundwork was laid during the years of military rule and while the Endara administration established the framework for dealing with these areas the ineptness and paralysis which characterized that administration left Panama even further behind the curve. If Panama were to request some extension of the U.S. presence, for a period not to exceed five years, in order to allow them more effectively to manage these territories, we should give such a request serious consideration. The future of the Canal is highly dependent upon Panama's ability to effectively utilize such territories. If these areas are not carefully developed, if a wide range of facilities and services related to Canal operations are not created, obsolescence and decline will be the dominant trends for the Canal in the next century. It already faces fierce competition from pipelines and alternate land transportation routes. These so-called "dry canals" offer numerous advantages and avoid many of the problems associated with the Panama Canal. Unless Panama can generate substantial revenues related to, but apart from direct Canal revenues the funds for needed improvements will not exist, the costs of maintaining current operations will steadily rise, and the Canal will lose whatever competitive advantage it still has.

Let me again emphasize that any extension of the U.S. military presence should be based on an initiative from Panama. They stand to gain much more from this than we do and this should effectively eliminate any issue of payment. Negotiating any extension of U.S. base rights

would be a complicated process and could easily prove divisive both in Panama and in the United States. I certainly would not want to explain to the citizens of my part of Illinois why we are closing the Melvin Price Support Depot, but keeping open bases scheduled to be closed in Panama. Within the ruling Revolutionary Democratic Party (PRD) in Panama there are strong elements opposed to any prolongation of the U.S. military presence and others who still believe that Washington will pay a significant price to maintain our military presence. Any negotiations will require a clear Status of Forces Agreement and should provide for keeping bases for a very limited time period. Emphasis must be placed on Panama's assuming responsibility for the basic security of the canal, not on their counting on a continued, limited U.s. military presence to do that for them.

Conclusion

The time remaining until Panama takes over operation of the Canal is short and the issues are numerous and difficult. Any discussion over the future of U.S. bases should not be allowed to obscure our fundamental mutual interests in democratic development, regional peace and security, and the free flow of world trade. We need to take Panama seriously as a nation and Panamanians need to realize that they must pay the bulk of the costs associated with achieving full sovereignty and assuring their future development. With or without a military presence, we will retain a strong interest in Panama's future and no decision, or non-decision on the future of the bases should be allowed to obscure this fact.

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